

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
Mar 31, 2021
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 MARCH 31 2021 (IN MIL PESO-CONSO)	194,813

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

Yes No

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

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

12. Indicate by check mark whether the registrant:

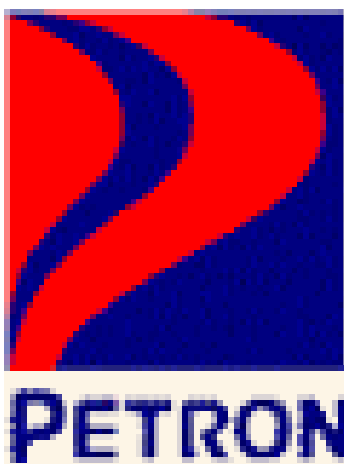
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes No

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

Yes No

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



Petron 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	Mar 31, 2021
Currency (indicate units, if applicable)	Peso (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Mar 31, 2021	Dec 31, 2020
Current Assets	130,439	132,294
Total Assets	347,086	349,725
Current Liabilities	150,440	149,069
Total Liabilities	261,956	263,530
Retained Earnings/(Deficit)	29,898	29,799
Stockholders' Equity	85,130	86,195
Stockholders' Equity - Parent	78,493	79,772
Book Value per Share	2.04	2.05

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	83,641	104,975	83,641	104,975
Gross Expense	79,980	109,384	79,980	109,384
Non-Operating Income	926	391	926	391
Non-Operating Expense	2,439	2,967	2,439	2,967
Income/(Loss) Before Tax	2,148	-6,985	2,148	-6,985
Income Tax Expense	418	-2,108	418	-2,108
Net Income/(Loss) After Tax	1,730	-4,877	1,730	-4,877
Net Income Attributable to Parent Equity Holder	1,400	-4,614	1,400	-4,614
Earnings/(Loss) Per Share (Basic)	0.01	-0.58	0.01	-0.58
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-0.67	-0.78
Earnings/(Loss) Per Share (Diluted)	-	-

Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the 1st Quarter 2021 of the Company.

Filed on behalf by:

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

COVERSHEET

S. E. C. Registration Number: 3 1 1 7 1

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 1st Quarter 2021
FORM TYPE

0 5 1 8
Month Day
Annual Meeting
(For 2021)

Permit to offer securities
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

144,959 (as of March 31, 2021)
Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

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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 March 31, 2021.
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

<p>Title of Each Class</p> <p><u>Common Stock</u></p> <p><u>Preferred Stock Series 2B</u></p> <p><u>Preferred Stock Series 3A</u></p> <p><u>Preferred Stock Series 3B</u></p> <p><u>Total Liabilities</u></p>	<p>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (As of March 31, 2021)</p> <p><u>9,375,104,497 Shares</u></p> <p><u>2,877,680 Shares</u></p> <p><u>13,403,000 Shares</u></p> <p><u>6,597,000 Shares</u></p> <p><u>P261,956 Million</u></p>
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11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [X] No []

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

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

12. Indicate by check mark whether the Registrant:

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

Yes [X] No []

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

Yes [X] No []

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

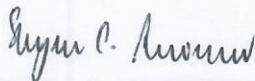

	<i>Note</i>	Unaudited Marh 31 2021	Audited December 31 2020
ASSETS			
Current Assets			
Cash and cash equivalents	9, 10	P30,027	P27,053
Financial assets at fair value	9, 10	876	603
Investments in debt instruments	9, 10	-	184
Trade and other receivables - net	7, 9, 10	29,003	27,195
Inventories		39,788	44,922
Other current assets	7	30,745	32,337
Total Current Assets		130,439	132,294
Noncurrent Assets			
Investments in debt instruments	9, 10	-	197
Investment in shares of stock of an associate	11	1,003	-
Property, plant and equipment - net	5, 6	168,693	168,831
Right-of-use assets - net		6,011	6,045
Investment property - net		29,111	30,049
Deferred tax assets - net		1,992	2,190
Goodwill - net		7,883	8,031
Other noncurrent assets - net	9, 10	1,954	2,088
Total Noncurrent Assets		216,647	217,431
		P347,086	P349,725
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	8, 9, 10	P76,452	P77,704
Liabilities for crude oil and petroleum products	9, 10	24,372	22,320
Trade and other payables	7, 9, 10	14,792	15,402
Lease liabilities – current portion		1,187	1,243
Derivative liabilities	9, 10	714	1,124
Income tax payable		432	162
Current portion of long-term debt - net	9, 10	32,491	31,114
Total Current Liabilities		150,440	149,069

Forward

	<i>Note</i>	Unaudited March 31 2021	Audited December 31 2020
Noncurrent Liabilities			
Long-term debt - net of current portion and debt issue costs	9, 10	P85,870	P88,340
Retirement benefits liability		3,619	3,705
Deferred tax liabilities - net		3,172	3,084
Lease liabilities - net of current portion	9, 10	14,165	14,561
Asset retirement obligation		2,900	2,867
Other noncurrent liabilities	9, 10	1,790	1,904
Total Noncurrent Liabilities		111,516	114,461
Total Liabilities		261,956	263,530
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		9,485	9,485
Additional paid-in capital	11	37,500	37,500
Capital securities		36,481	36,481
Retained earnings	11	29,898	29,799
Equity reserves		(19,749)	(18,371)
Treasury stock		(15,122)	(15,122)
Total Equity Attributable to Equity Holders of the Parent Company		78,493	79,772
Non-controlling Interests		6,637	6,423
Total Equity		85,130	86,195
		P347,086	P349,725

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

Certified by:


MYRNA C. GERONIMO
 Vice President - Controllers 

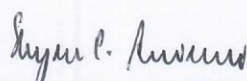

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in Million Pesos, Except Per Share Data)

		For the Three Months Ended March 31	
	<i>Note</i>	2021	2020
SALES	5	P83,307	P104,623
COST OF GOODS SOLD		76,529	105,566
GROSS PROFIT (LOSS)		6,778	(943)
SELLING AND ADMINISTRATIVE EXPENSES		(3,451)	(3,818)
OTHER OPERATING INCOME		334	352
INTEREST EXPENSE AND OTHER FINANCING CHARGES	5	(2,439)	(2,967)
INTEREST INCOME	5	133	199
OTHER INCOME - Net		793	192
		(4,630)	(6,042)
INCOME (LOSS) BEFORE INCOME TAX		2,148	(6,985)
INCOME TAX EXPENSE (BENEFIT)	5	418	(2,108)
NET INCOME (LOSS)		P1,730	(P4,877)
Attributable to:			
Equity holders of the Parent Company		P1,400	(P4,614)
Non-controlling interests		330	(263)
		1,730	(P4,877)
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	12	P0.01	(P0.58)

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

Certified by:

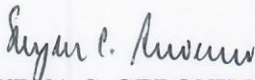


MYRNA C. GERONIMO
 Vice President - Controllers 

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

	For the Three Months Ended March 31	
	2021	2020
NET INCOME (LOSS)	P1,730	(P4,877)
OTHER COMPREHENSIVE INCOME		
Equity reserve for retirement plan	(119)	-
Income tax benefit	(236)	-
	(355)	-
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Net income on cash flow hedges	126	38
Exchange differences on translation of foreign operations	(1,221)	(2,360)
Unrealized fair value gain (loss) on investments in debt instruments at FVOCI	-	(1)
Share in other comprehensive income of a joint venture	-	1
Income tax benefit	(44)	(12)
	(1,139)	(2,334)
OTHER COMPREHENSIVE LOSS - Net of tax	(1,494)	(2,334)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - Net of tax	P236	(P7,211)
Attributable to:		
Equity holders of the Parent Company	P22	(P6,627)
Non-controlling interests	214	(584)
	P236	(P7,211)

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

Certified by:


MYRNA C. GERONIMO
Vice President – Controllers 

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

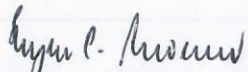

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Retained Earnings			Equity Reserves				Treasury Stock	Total	Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				
As of January 1, 2021 (Audited)		P9,485	P37,500	P36,481	P15,000	P14,799	(P5,148)	(P13,223)	(P15,122)	P79,772	P6,423	P86,195
Net loss on cash flow hedges - net of tax		-	-	-	-	-	(354)	(271)	-	(625)	-	(625)
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	352	-	352	-	352
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,105)	-	(1,105)	(116)	(1,221)
Other comprehensive loss for the period		-	-	-	-	-	(354)	(1,024)	-	(1,378)	(116)	(1,494)
Net income for the period		-	-	-	-	1,400	-	-	-	1,400	33C	1,730
Total comprehensive income (loss) for the period		-	-	-	-	1,400	(354)	(1,024)	-	22	24	236
Cash dividends	13	-	-	-	-	(408)	-	-	-	(408)	-	(408)
Distributions paid	13	-	-	-	-	(893)	-	-	-	(893)	-	(893)
Reversal of Appropriation	11	-	-	-	(8,000)	8,000	-	-	-	-	-	-
Transactions with owners		-	-	-	(8,000)	6,699	-	-	-	(1,301)	-	(1,301)
As of March 31, 2021 (Unaudited)		P9,485	P37,500	P36,481	P7,000	P22,898	(P5,502)	(P14,247)	(P15,122)	P78,493	P6,637	P85,130

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Retained Earnings			Equity Reserves				Total	Non-controlling Interests	Total Equity	
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				Treasury Stock
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		-	-	-	-	-	-	26	-	26	-	26
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Share in other comprehensive income of a joint venture		-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(2,039)	-	(2,039)	(321)	(2,360)
Other comprehensive loss for the period		-	-	-	-	-	-	(2,013)	-	(2,013)	(321)	(2,334)
Net loss for the period		-	-	-	-	(4,614)	-	-	-	(4,614)	(263)	(4,877)
Total comprehensive loss for the period		-	-	-	-	(4,614)	-	(2,013)	-	(6,627)	(584)	(7,211)
Cash dividends	13	-	-	-	-	(1,334)	-	-	-	(1,334)	-	(1,334)
Distributions paid	13	-	-	-	-	(837)	-	-	-	(837)	-	(837)
Transactions with owners		-	-	-	-	(2,171)	-	-	-	(2,171)	-	(2,171)
As of March 31, 2020 (Unaudited)		P9,485	P37,500	P25,183	P15,000	P23,725	(P4,704)	(P14,208)	(P15,122)	P76,859	P6,189	P83,048

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

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 Three Months Ended March 31	
	<i>Note</i>	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		P2,148	(P6,985)
Adjustments for:			
Depreciation and amortization	5	2,269	2,736
Interest expense and other financing charges	5	2,439	2,967
Retirement benefits costs		85	31
Unrealized foreign exchange gains - net		(40)	(47)
Interest income	5	(133)	(199)
Other gains		(1,196)	(558)
Operating income (loss) before working capital changes		5,572	(2,055)
Changes in noncash assets, certain current liabilities and others		5,608	(4,061)
Cash generated from (used in) operations		11,180	(6,116)
Contributions to retirement fund		(150)	(50)
Interest paid		(2,265)	(3,089)
Income taxes paid		431	(112)
Interest received		198	287
Net cash flows provided by (used in) operating activities		9,394	(9,080)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(1,856)	(2,124)
Proceeds from sale of property and equipment		26	4
Additions to investment property		(145)	(367)
Increase in other noncurrent assets		(1)	(45)
Net cash flows used in investing activities		(1,976)	(2,532)

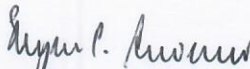

Forward

**For the Three Months Ended
March 31**

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	8 P33,930	P74,260
Payments of:		
Loans	8 (36,471)	(66,472)
Lease liabilities	(853)	(587)
Cash dividends and distributions	13 (1,294)	(1,262)
Net cash flows provided by (used in) financing activities	(4,688)	5,939
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	244	17
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,974	(5,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	27,053	34,218
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P30,027	P28,562

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

Certified by:


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.

Pursuant to the Parent Company’s Articles of Incorporation (AOI), it has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Under Section 11 of the Revised Corporation Code of the Philippines, the Parent Company shall have a perpetual existence unless its AOI provides otherwise.

Petron is the only oil refining and the leading 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 March 31, 2021 and the comparative financial statements for the same period in 2020 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 May 4, 2021.

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 2021

The Group has adopted the following PFRS effective January 1, 2021 and accordingly, changed its accounting policies in the following areas:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts*, and PFRS 16, *Leases*). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
 - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
 - *Relief from Specific Hedge Accounting Requirements*. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
 - *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments apply retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

The amendments are still subject to the approval by the FRSC.

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

Standards Issued But Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2021 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 an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- **Onerous Contracts - Cost of Fulfilling a Contract** (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- **Annual Improvements to PFRS Standards 2018-2020.** This cycle of improvements contains amendments to four standards:
 - **Fees 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, the fees paid net of fees received included in the discounted cash flows include 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.
 - **Lease Incentives** (Amendment to Illustrative Examples accompanying PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the

definition of a lease incentive in PFRS 16.

- 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. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:
 - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;
 - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
 - added an explicit statement that an acquirer 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. Earlier application is permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
 - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
 - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
 - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. 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) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive

income.

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

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

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

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

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

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 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. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law

The CREATE Act, which seeks to reduce the Corporate Income Tax Rates and rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021. One of the key provisions of the CREATE Law is an immediate 5%-10% point cut in the corporate income tax rate starting July 2020. As a result, the Group has taken up in the books the effect of the application of reduced corporate income tax rate from 30% to 25%.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE law are as follows:

	Increase (decrease)
ASSETS	
Prepaid expenses and other current assets	P4
Deferred tax assets	(224)
	(P220)
LIABILITIES	
Deferred tax liabilities	P28
	P28
EQUITY	
Equity reserves	P366
Retained earnings	(174)
	P192
	(P220)
INCOME TAX EXPENSE	
Current	(P4)
Deferred	(170)
	(P174)

4. Use of Judgments and Estimates

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2020.

Starting January 1, 2020, the Group adopted the unit of production method (UPM) of accounting for depreciation of refinery and plant equipment used in production. UPM closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

5. Segment Information

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

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

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country and in Malaysia.
- 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, Indonesia, Taiwan, and Vietnam.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

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

The Group has no significant remaining performance obligations as it mainly recognizes revenues in

amounts that correspond directly to the value of completed performance obligations.

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended March 31, 2021, December 31, 2020 and March 31, 2020:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/Others**	Total
March 31, 2021						
Revenue:						
External sales	P82,690	P -	P288	P248	P81	P83,307
Inter-segment sales	14,062	25	105	-	(14,192)	-
Operating income	3,503	21	47	20	70	3,661
Net income (loss)	2,250	25	51	21	(617)	1,730
Assets and liabilities:						
Segment assets*	379,366	3,419	9,804	706	(48,201)	345,094
Segment liabilities*	266,478	1,940	4,746	173	(14,553)	258,784
Other segment information:						
Property, plant and equipment - net	168,155	-	-	104	434	168,693
Depreciation and amortization	2,290	-	2	(23)	-	2,269
Interest expense	2,475	-	74	-	(110)	2,439
Interest income	153	4	56	1	(81)	133
Income tax expense (benefit)	437	3	(23)	2	(1)	418

*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, 2020						
Revenue:						
External sales	P283,885	P -	P1,150	P674	P324	P286,033
Inter-segment sales	86,363	76	415	-	(86,854)	-
Operating income (loss)	(5,401)	53	266	79	375	(4,629)
Net income (loss)	(10,628)	104	155	74	(1,118)	(11,413)
Assets and liabilities:						
Segment assets*	387,619	3,353	9,981	659	(54,077)	347,535
Segment liabilities*	274,483	1,907	4,949	147	(21,040)	260,446
Other segment information:						
Property, plant and equipment	168,289	-	-	109	433	168,831
Depreciation and amortization	9,565	-	9	(90)	6	9,490
Interest expense	11,416	-	316	1	(420)	11,313
Interest income	853	30	232	5	(340)	780
Income tax expense	(4,841)	6	61	8	(32)	(4,798)

*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
March 31, 2020						
Revenue:						
External sales	P104,033	P -	P279	P225	P86	P104,623
Inter-segment sales	31,411	21	104	-	(31,536)	-
Operating income (loss)	(4,548)	15	62	24	38	(4,409)
Net income (loss)	(4,951)	27	27	28	(8)	(4,877)
Assets and liabilities:						
Segment assets*	402,606	6,787	9,779	694	(52,077)	367,789
Segment liabilities*	289,410	5,389	4,893	129	(18,992)	280,829
Other segment information:						
Property, plant and equipment - net	166,246	-	-	119	576	166,941
Depreciation and amortization	2,755	-	2	(23)	2	2,736
Interest expense	3,005	-	78	-	(116)	2,967
Interest income	213	11	57	3	(85)	199
Income tax expense (benefit)	(2,127)	5	13	3	(2)	(2,108)

*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.

Inter-segment sales transactions amounted to P14,192, P86,854 and P31,536 for the periods ended March 31, 2021, December 31, 2020 and March 31, 2020, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended March 31, 2021, December 31, 2020 and March 31, 2020:

	Retail	Lube	Gasul	Industrial	Others	Total
March 31, 2021						
Revenue	P44,220	P1,300	P5,807	P13,197	P18,166	P82,690
Property, plant and equipment	9,296	38	244	12	158,565	168,155
Capital expenditures	1,678	4	12	1	18,472	20,167
December 31, 2020						
Revenue	P149,406	P3,577	P20,259	P57,889	P52,754	P283,885
Property, plant and equipment	9,057	37	258	13	158,924	168,289
Capital expenditures	2,382	1	12	-	22,234	24,629
March 31, 2020						
Revenue	P48,289	P935	P6,471	P25,773	P22,565	P104,033
Property, plant and equipment	9,788	44	282	28	156,104	166,246
Capital expenditures	2,299	3	8	-	17,131	19,441

Geographical Segments

The following table presents segment assets of the Group as of March 31, 2021, December 31, 2020 and March 31, 2020:

	March 31, 2021	December 31, 2020	March 31, 2020
Local	P272,400	P282,871	P299,868
International	72,694	64,664	67,921
	P345,094	P347,535	P367,789

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended March 31, 2021, December 31, 2020 and March 31, 2020:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
March 31, 2021						
Local	P44,070	P4	P393	P248	(P292)	P44,423
Export/international	52,682	21	-	-	(13,819)	38,884
December 31, 2020						
Local	P165,139	P -	P1,565	P674	(P558)	P166,820
Export/international	205,109	76	-	-	(85,972)	119,213
March 31, 2020						
Local	P61,212	P6	P383	P225	(P185)	P61,641
Export/international	74,232	14	-	-	(31,264)	42,982

***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.*

6. Property, Plant and Equipment

The movements and balances as of and for the periods ended March 31, 2021 and December 31, 2020 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, 2020 (Audited)	22,717	192,451	19,280	5,652	4,162	16,872	261,134
Adjustments due to reclassification from Long-term Assets	-	422	-	-	-	-	422
January 1, 2020 (as adjusted)	22,717	192,873	19,280	5,652	4,162	16,872	261,556
Additions	243	446	560	222	-	7,009	8,480
Disposals/reclassifications	970	1,360	259	77	71	(3,262)	(525)
Reclassification to/from investment property	(162)	-	-	-	(31)	(143)	(336)
Currency translation adjustment	(271)	(430)	(315)	(64)	(68)	(294)	(1,442)
December 31, 2020 (Audited)	23,497	194,249	19,784	5,887	4,134	20,182	267,733
Additions	22	252	42	27	92	1,496	1,931
Disposals/reclassifications	451	1,051	(91)	32	1	(1,598)	(154)
Currency translation adjustment	27	(240)	(177)	(37)	(35)	(213)	(675)
March 31, 2021 (Unaudited)	23,997	195,312	19,558	5,909	4,192	19,867	268,835
Accumulated Depreciation and Amortization:							
January 1, 2020 (Audited)	13,205	61,390	12,832	4,672	1,094	-	93,193
Adjustments due to reclassification from Long-term Assets	-	96	-	-	-	-	96
January 1, 2020 (as adjusted)	13,205	61,486	12,832	4,672	1,094	-	93,289
Additions	858	4,096	1,028	457	92	-	6,531
Disposals/reclassifications	(73)	76	(44)	(84)	3	-	(122)
Reclassification to/from investment property	-	-	-	-	(7)	-	(7)
Currency translation adjustment	(197)	(318)	(126)	(51)	(1)	-	(693)
December 31, 2020 (Audited)	13,793	65,244	13,690	4,994	1,181	-	98,902
Additions	214	976	245	108	22	-	1,565
Disposals/reclassifications	(22)	-	1	(8)	(2)	-	(31)
Currency translation adjustment	10	(174)	(100)	(30)	-	-	(294)
March 31, 2021 (Unaudited)	13,995	66,046	13,836	5,064	1,201	-	100,142
Carrying Amount:							
December 31, 2020 (Audited)	P9,704	P129,005	P6,094	P893	P2,953	P20,182	P168,831
March 31, 2021 (Unaudited)	P10,002	P129,266	P5,722	P845	P2,991	P19,867	P168,693

Capital Commitments

As of March 31, 2021 and December 31, 2020, the Group has outstanding commitments to acquire property, plant and equipment amounting to P8,294 and P12,506, respectively.

7. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended March 31, 2021 and December 31, 2020 follow:

	<i>Note</i>	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	2021 2020	P19 93	P - -	P1,580 1,562	P - -	On demand; long-term; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e,g,h</i>	2021 2020	4 7	174 174	11 11	290 251	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d, g,h,i,j,k</i>	2021 2020	1,422 4,764	4,445 4,445	2,038 1,157	1,934 1,918	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c,f,g</i>	2021 2020	- -	- -	1 4	- -	On demand; non-interest bearing	Unsecured no impairment
		2021	P1,445	P4,619	P3,630	P2,224		
		2020	P4,864	P4,619	P2,734	P2,169		

- a. The Parent Company has interest bearing advances to Petron Corporation Employees' Retirement Plan (PCERP), included as part of "Trade and other receivables - net" account in the consolidated interim statements of financial position, for some investment opportunities.
- b. Sales relate to the Parent Company's supply agreements with the Intermediate Parent and various SMC subsidiaries. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- d. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,852 square meters with a monthly rental of P6. The lease, which commenced on June 1, 2018, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- f. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services to Petron Fuel International Sdn Bhd (PFISB) and another venturer.
- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. Amounts owed to related parties consist of trade and non-trade payables.
- 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.
- j. Remaining 51,000 shares of MNHPI representing 0.17% interest was sold to a related party at a gain in 2020.
- k. In February 4, 2021, Petrogen Insurance Corporation became an associate of the Parent Company due to the decrease in ownership interest from 100% to 25.06% as a result of the subscription of SMC to 1,494,973 shares in Petrogen.

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for three months ended March 31, 2021 follow:

Balance as of January 1, 2021	P77,704
Loan availments	33,930
Loan repayments	(35,060)
Currency translation adjustment	(122)
Balance as of March 31, 2021	P76,452

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 12 to 90 days and annual interest ranging from 1.27% to 2.95% and 0.92% to 6.75% as of and for the periods ended March 31, 2021 and December 31, 2020, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

Long-term Loans

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

The Group has two financial covenants, namely, net leverage ratio not to exceed 6.5x and ratio of consolidated gross debt to consolidated net worth not to exceed 2.75x. In November 2020, the Group secured consent to amend the testing of its net leverage ratio from semi-annual to incurrence-based, while the ratio of consolidated gross debt to consolidated net worth remained to be tested quarterly.

As of March 31, 2021 and December 31, 2020 the Group has complied with the provisions of its debt agreements.

9. Financial Risk Management Objectives and Policies

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

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into 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:

	March 31, 2021		December 31, 2020	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	504	24,484	455	21,827
Trade and other receivables	208	10,094	137	6,589
Other assets	15	709	18	869
	727	35,287	610	29,285
Liabilities				
Short-term loans	138	6,699	124	5,971
Liabilities for crude oil and petroleum products	466	22,636	434	20,853
Long-term debt (including current maturities)	1,256	60,948	1,266	60,786
Other liabilities	117	5,666	134	6,430
	1,977	95,949	1,958	94,040
Net foreign currency -denominated monetary liabilities	(1,250)	(60,662)	(1,348)	(64,755)

The Group incurred net foreign currency exchange gains (losses) amounting to P32 and (P215) for the periods ended March 31, 2021 and 2020, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
March 31, 2021	48.530
December 31, 2020	48.023
March 31, 2020	50.680

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of March 31, 2021 and December 31, 2020:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
March 31, 2021				
Cash and cash equivalents	(P354)	(P416)	P354	P416
Trade and other receivables	(15)	(205)	15	205
Other assets	(7)	(13)	7	13
	(376)	(634)	376	634
Short-term loans	20	133	(20)	(133)
Liabilities for crude oil and petroleum products	141	565	(141)	(565)
Long-term debts (including current maturities)	1,256	942	(1,256)	(942)
Other liabilities	23	119	(23)	(119)
	1,440	1,759	(1,440)	(1,759)
	P1,064	P1,125	(P1,064)	(P1,125)

December 31, 2020	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	(P351)	(P349)	P351	P349
Trade and other receivables	(14)	(148)	14	148
Other assets	(5)	(17)	5	17
	(370)	(514)	370	514
Short-term loans	20	118	(20)	(118)
Liabilities for crude oil and petroleum products	262	618	(262)	(618)
Long-term debts (including current maturities)	1,266	886	(1,266)	(886)
Other liabilities	36	123	(36)	(123)
	1,584	1,745	(1,584)	(1,745)
	P1,214	P1,231	(P1,214)	(P1,231)

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 P152 and P538 for the period ended March 31, 2021 and for the year ended December 31, 2020, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of March 31, 2021 and December 31, 2020, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2021	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P19,580	P6,018	P10,393	P15,521	P7,113	P -	P58,625
Interest rate	4.0% - 5.8%	4.6% - 5.8%	4.5% - 5.5%	4.6% - 7.8%	4.6% - 8.1%		
Floating Rate							
US\$ denominated (expressed in Php)	12,424	18,026	18,372	5,546	-	-	54,368
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			
JP¥ denominated (expressed in Php)	940	1,880	1,880	1,880	-	-	6,580
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			
	P32,944	P25,924	P30,645	P22,947	P7,113	P -	P119,573

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

December 31, 2020	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P19,268	P6,893	P10,393	P16,057	P7,425	P -	P60,036
Interest rate	4.0% - 5.8%	4.6% - 5.8%	4.5% - 5.5%	4.6% - 7.8%	4.6% - 8.1%		
Floating Rate							
US\$ denominated (expressed in Php)	12,294	17,837	18,180	5,489	-	-	53,800
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			
JP¥ denominated (expressed in Php)	-	1,996	1,996	1,996	998	-	6,986
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			
	P31,562	P26,726	P30,569	P23,542	P8,423	P -	P120,822

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

Credit Risk

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

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

	March 31, 2021	December 31, 2020
Cash in banks and cash equivalents	P22,650	P25,970
Derivative assets	602	334
Investments in debt instruments	-	381
Trade and other receivables - net	29,003	27,195
Noncurrent deposits	120	121
	P52,375	P54,001

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 5.

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

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

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

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,989 and P4,784 as of March 31, 2021 and December 31, 2020, 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.

March 31, 2021						
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	P22,650	P -	P -	P -	P -	P22,650
Trade and other receivables	-	29,003	1,006	-	-	30,009
Derivative assets not designated as cash flow hedge	-	-	-	597	-	597
Derivative assets designated as cash flow hedge	-	-	-	-	5	5
Proprietary membership shares	-	-	-	282	-	282
Long-term receivables	-	-	302	-	-	302
Noncurrent deposits	120	-	-	-	-	120
	P22,770	P29,003	P1,308	P879	P5	P53,965

December 31, 2020						
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	P25,970	P -	P -	P -	P -	P25,970
Trade and other receivables	-	27,195	995	-	-	28,190
Derivative assets not designated as cash flow hedge	-	-	-	322	-	322
Derivative assets designated as cash flow hedge	-	-	-	-	12	12
Investments in debt instruments	255	-	-	-	126	381
Long-term receivables	-	-	307	-	-	307
Noncurrent deposits	121	-	-	-	-	121
	P26,346	P27,195	P1,302	P322	P138	P55,303

Liquidity Risk

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

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

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

The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2021 and December 31, 2020.

March 31, 2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P30,027	P30,027	P30,027	P -	P -	P -
Trade and other receivables - net	29,003	29,003	29,003	-	-	-
Derivative assets (including noncurrent portion)	602	602	601	1	-	-
Proprietary membership shares	282	282	282	-	-	-
Noncurrent deposits	120	120	-	-	3	117
Financial Liabilities						
Short-term loans	76,452	83,900	83,900	-	-	-
Liabilities for crude oil and petroleum products	24,372	24,372	24,372	-	-	-
Trade and other payables*	10,434	10,434	10,434	-	-	-
Derivative liabilities (including noncurrent portion)	879	879	714	133	32	-
Long-term debts (including current maturities)	118,361	129,906	36,486	29,066	64,354	-
Lease liability (including current portion)	15,352	27,190	2,125	1,849	5,179	18,037
Cash bonds	953	953	-	937	15	1
Cylinder deposits	622	622	-	-	-	622
Other noncurrent liabilities**	50	50	-	6	27	17

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

**excluding cash bonds, cylinder deposits and derivative liabilities

December 31, 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	P27,053	P27,053	P27,053	P -	P -	P -
Trade and other receivables - net	27,195	27,195	27,195	-	-	-
Derivative assets (including noncurrent portion)	334	334	328	6	-	-
Proprietary membership shares	275	275	275	-	-	-
Investments in debt instruments	381	585	381	142	62	-
Noncurrent deposits	121	121	-	-	3	118
Financial Liabilities						
Short-term loans	77,704	77,704	77,704	-	-	-
Liabilities for crude oil and petroleum products	22,320	22,320	22,320	-	-	-
Trade and other payables*	9,402	9,402	9,402	-	-	-
Derivative liabilities (including noncurrent portion)	1,416	1,416	1,124	201	91	-
Long-term debts (including current maturities)	119,454	133,312	36,690	30,031	66,591	-
Lease liability (including current portion)	15,804	22,406	1,913	1,731	4,735	14,027
Cash bonds	947	947	-	931	15	1
Cylinder deposits	617	617	-	-	-	617
Other noncurrent liabilities**	48	48	-	11	19	18

*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:

	March 31, 2021	December 31, 2020
Total assets	P347,086	P349,725
Total liabilities	261,956	263,530
Total equity	85,130	86,195
Debt to equity ratio	3.1:1	3.1:1
Assets to equity ratio	4.1:1	4.1:1

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

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

10. Financial Assets and Financial Liabilities

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.

Classification of Financial Instruments between Liability and Equity

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

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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 March 31, 2021 and December 31, 2020:

	March 31, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P30,027	P30,027	P27,053	P27,053
Trade and other receivables – net	29,003	29,003	27,195	27,195
Investments in debt instruments	-	-	255	255
Noncurrent deposits	120	120	121	121
FA at amortized cost	59,150	59,150	54,624	54,624
Investments in debt instruments	-	-	126	126
Derivative assets designated as cash flow hedge	5	5	12	12
FA at FVOCI	5	5	138	138
Proprietary membership shares	282	282	275	275
Derivative assets not designated as cash flow hedge	597	597	322	322
FA at FVPL	879	879	597	597
Total financial assets	P60,034	P60,034	P55,359	P55,359
Financial liabilities (FL):				
Short-term loans	P76,452	P76,452	P77,704	P77,704
Liabilities for crude oil and petroleum products	24,372	24,372	22,320	22,320
Trade and other payables*	10,434	10,434	9,402	9,402
Long-term debts including current portion	118,361	118,361	119,454	119,454
Derivative liabilities designated as cash flow hedge	418	418	592	592
Cash bonds	953	953	947	947
Cylinder deposits	622	622	617	617
Other noncurrent liabilities**	50	50	47	47
Other FL	231,662	231,662	231,083	231,083
Derivative liabilities not designated as cash flow hedge	461	461	824	824
Total financial liabilities	P232,123	P232,123	P231,907	P231,907

*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 March 31, 2021 and December 31, 2020 are 7.54% and 7.45% 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 recognized 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:

March 31, 2021	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$40	US\$40		US\$80
Average strike rate	P51.96 TO P54.35	P51.96 TO P54.47		
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$20	US\$30	US\$30	US\$80
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
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\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

December 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$50	US\$50		US\$100
Average strike rate	P52.41 TO P54.87	P52.41 TO P55.02		
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$20	US\$30	US\$30	US\$80
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
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\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

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

March 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P47	P-	(P20)
Foreign currency and interest rate risks			
US dollar-denominated loan	P338	(P166)	P134
Interest rate risks			
US dollar-denominated loan	P21	(P16)	P-
<hr/>			
December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P85	P-	(P40)
Foreign currency and interest rate risks			
US dollar-denominated loan	P467	(P187)	P94
Interest rate risks			
US dollar-denominated loan	P28	(P20)	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:

March 31, 2021	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$80	P12	P59	Financial assets at FVPL, Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P47)	P13	(P7)	P18	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US\$80	P-	P338	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P338)	(P4)	(P40)	P48	Interest expense and other financing charges, Other income (expenses) - net
Interest rate risk									
Interest rate collar	US\$90	P-	P21	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P21)	(P4)	P-	P4	Interest expense and other financing charges
<hr/>									
December 31, 2020	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$100	P11	P96	Financial assets at FVPL, Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P85)	(P23)	P28	P166	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US\$80	P-	P467	Derivative liabilities, Other noncurrent liabilities	(P467)	(P234)	P129	P200	Interest Expense and other financing charges, and Other income (expenses) - net
Interest rate risk									
Interest rate collar	US\$90	P-	P28	Derivative liabilities, Other noncurrent liabilities	(P28)	(P9)	P-	P9	Interest expense and other financing charges

No ineffectiveness was recognized in the 2021 and 2020 consolidated statements of income.

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

	March 31, 2021		December 31, 2020	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	(P207)	P54	(P201)	(P21)
Changes in fair value:				
Foreign currency risk	7	13	(28)	(23)
Foreign currency risk and interest rate risk	85	(4)	(102)	(234)
Interest rate risk	7	(4)	(35)	(9)
Amount reclassified to profit or loss				
Foreign currency risk	(7)	18	28	166
Foreign currency risk and interest rate risk	(40)	48	129	200
Interest rate risk	-	4	-	9
Income tax effect	(27)	(15)	2	(34)
Balance at end of period	(P182)	P114	(P207)	P54

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.

Call Spread Swaps. As of March 31, 2021, the Group has outstanding call spread swaps US\$40 million maturing on June 2021. The net negative fair value of these call spread swaps amounted to P13.55 million.

Cross Currency Swaps. As of March 31, 2021, the Group has outstanding cross currency swaps with a notional amount US\$20 million maturing on May 2021 and June 2021. The net negative fair value of these cross currency swaps amounted to P78.12 million.

Interest Rate Collar. As of March 31, 2021, 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 P0.41 million.

Freestanding Derivatives

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

Currency Forwards. As of March 31, 2021 and December 31, 2020, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$289 million and US\$395 million, respectively, and with various maturities. As of March 31, 2021 and December 31, 2020, the net fair value of these currency forwards amounted to P17 and (P48), respectively.

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 32.1 million barrels and 32.8 million

barrels as of March 31, 2021 and December 31, 2020, respectively. The estimated net receipts (pay-outs) for these transactions amounted to P203 and (P754) as of March 31, 2021 and December 31, 2020, respectively.

Commodity Options. As of March 31, 2021 and December 31, 2020, the Group 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 March 31, 2021 and December 31, 2020, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2021 and December 31, 2020, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended March 31, 2021 and 2020, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P840 and P439, respectively.

Fair Value Measurements

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (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 March 31, 2021 and December 31, 2020.

	Level 2	
	March 31, 2021	December 31, 2020
Financial Assets:		
FVPL	P282	P275
Derivative assets	602	334
Investments in debt instruments	-	126
Financial Liabilities:		
Derivative liabilities	(879)	(1,416)

The Group has no financial instruments valued based on Level 1 and Level 3 as of March 31, 2021 and December 31, 2020. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

11. Significant Transactions During the Period

- a. On December 3, 2020, the BOD of Petrogen approved the increase in its authorized capital stock from P750, divided into 750,000 shares, to P2,250, divided into 2,250,000 shares, with a par value of P1,000 per share. On the same date, Petrogen's BOD also approved the subscription of SMC to 1,494,973 shares at a book value of about P2,007 per share for an aggregate subscription price of P3,000. Petrogen received the SEC approval on February 8, 2021 on Petrogen's increase in authorized capital stock dated February 4, 2021 and issued 1,494,973 common shares with an aggregate par value of P1,495 to SMC for a total subscription price of P3,000. On March 1, 2021, the corresponding stock certificate was issued to SMC

As a result, the Parent Company's ownership interest in Petrogen decreased from 100% to 25.06% and Petrogen was deconsolidated from the Parent Company effective February 4, 2021.

- b. On February 22, 2021, the Asset Purchase Agreement with San Miguel Foods, Inc. and Foodcrave Marketing, Inc. for the acquisition by the Parent Company of the Treats convenience store business was executed with completion date of March 1, 2021, for an aggregate purchase price of P64.
- c. On March 9, 2021, the BOD of the Parent Company approved the reversal of P8,000 of the P15,000 appropriated retained earnings of the Parent Company since majority of the 2016 and 2017 capital projects were already completed while others were deferred. The remaining P7,000 is maintained for the Power plan project.

12. Basic and Diluted Earnings (Loss) per Share

Basic and diluted earnings (loss) per share amounts for the three months ended March 31, 2021 and 2020 are computed as follows:

	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	P1,400	(P4,614)
Dividends on preferred shares for the period	(408)	(397)
Distributions to the holders of capital securities for the period	(893)	(420)
Net income (loss) attributable to common shareholders of the Parent Company (a)	P99	(P5,431)
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)	P0.01	(P0.58)

As of March 31, 2021 and 2020, the Parent Company has no potential dilutive debt or equity instruments.

13. Cash Dividends and Distributions

Dividends

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

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
2021				
Series 2B	17.14575	March 9, 2021	April 7, 2021	May 3, 2021
Series 3A	17.17825	March 9, 2021	June 2, 2021	June 25, 2021
Series 3B	17.84575	March 9, 2021	June 2, 2021	June 25, 2021
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
Series 2B	17.14575	November 3, 2020	January 8, 2021	February 3, 2021
Series 3A	17.17825	November 3, 2020	March 2, 2021	March 25, 2021
Series 3B	17.84575	November 3, 2020	March 2, 2021	March 25, 2021

Distributions

Payments of distributions pertaining to SPCS and RPS were made on respective dates: January 15, 2021 (P789), February 10, 2021 (P44), February 26, 2021 (P3) and March 22 (P57).

14. Commitments and Contingencies

Supply and Lease Agreements

The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015 both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice. The contract with KPC was mutually agreed to be terminated by the parties effective January 1, 2021.

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 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated interim statements of financial position as of March 31, 2021 and December 31, 2020.

On September 30, 2009, the Parent Company through NVRC entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises were reappraised in 2017 (Note 16) and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of March 31, 2021, 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 P20,506 and P14,847 as of March 31, 2021 and December 31, 2020, 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, 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. Parent company has appealed the findings

of the SBMI to the DOTr and is awaiting its resolution. Parent company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC 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 amounted to P292. The cases were pending as at March 31, 2021. 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 (CA). On January 9, 2020, the CA issued a Resolution granting plaintiffs' motion for reconsideration of the earlier resolution denying their petition and ordering the Parent Company to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, the Parent Company filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far.

Other Proceedings

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

15. Events After the Reporting Period

- a. On April 19, 2021, Petron issued US\$550 million SPCS at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds will be applied for the repayment of indebtedness and for general corporate purposes.
- b. On May 3, 2021, 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	July 8, 2021	August 3, 2021
Series 3A	17.17825	September 2, 2021	September 27, 2021
Series 3B	17.84575	September 2, 2021	September 27, 2021

16. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the 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 Petron 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 which expired 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 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's of all such properties, and (iii) the payment by the Parent company to PNOC of the amount of P143, 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 Parent company filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. The Parent company and PNOC have exchanged pleadings on their respective appeals and are awaiting the resolution by the Court of Appeals of the parties' consolidated appeals.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2021.
- d. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

Gross Domestic Product (GDP)

GDP contracted year-on-year by 9.5% in 2020, compared to the recorded growth of 6.0% in 2019. This is the sharpest dip on record and the first GDP decline since 1998 (-0.5%).

<u>Economic growth</u> <i>(in percentage)</i>	2019	2020
GDP	6.0	(9.5)
<i>By Industry</i>		
Agriculture	1.2	(0.2)
Industry	4.7	(13.1)
Services	7.5	(9.1)
<i>By Expenditure</i>		
Household Consumption	5.9	(7.9)
Government Consumption	9.6	10.4
Capital Formation	2.5	(35.8)
Exports	2.4	(16.7)
Imports	1.8	(21.9)

Capital Formation was the main driver of the decline in demand at 35.8% which was mainly attributed to the COVID-19 pandemic. With strict quarantine measures causing restrictions on mobility and halting of non-essential business operations, work stoppages in construction and lower investments in durable equipment caused a significant impact on the economy. Household Consumption was negatively affected as unemployment rate rose to 10.3%, equivalent to 4.5 million unemployed Filipinos. Trade was also heavily affected by weakness in the global market. However, despite mass layoffs worldwide, repatriations, and lockdowns, remittances of overseas Filipinos fell by only 0.8% to \$33.2 billion in 2020, as workers found ways to send home much-needed funds to help support their families in the Philippines. Government Consumption increased due to spending for the pandemic such as support programs for vulnerable groups (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 decline of less than 1%.

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

91-day T-Bill rates averaged 1.0% in 1Q 2021, lower compared to 3.1% of the same period last year.

Bangko Sentral ng Pilipinas (BSP) has retained its policy interest rates to its current all-time low rate at 2%, the same level since November 2020 to support economic activity as the local economy stays in recession with quarantine restrictions still getting in the way of a full recovery.

Peso-Dollar Exchange Rate

The peso averaged P48.3/\$ as of Ytd-March, a 5.2% appreciation from P50.8/\$ in the same period last year. Strength in peso is due in large part to BSP's all-time low interest rates, balance-of-payments surplus, and rising international reserves.

Inflation

The rate of increase in prices of commodities and services accelerated to 4.5% as of Ytd-March 2021, from 2.7% in the same period last year. Uptick was mainly caused by the increase in meat prices due to

the African swine fever outbreak. Transportation costs also continued to rise becoming the second major driver of inflation.

Industry Oil Demand

Oil demand¹ in the country declined by 21.3% to 63,563 MB in 1H 2020 from 80,781 MB in 1H 2019. The decline was mainly due to quarantine measures causing reduced economic activity affecting the demand of transport fuels.

Oil Market

Year-on-year prices of Dubai grew by 18% to \$60.0/bbl in 1Q 2021 vs. \$50.7/bbl in the same period last year, as OPEC+ manage the increase in production causing tighter global crude supply. Ytd-March 2021 Gasoline crack strengthened by about 6.7% to \$7.1/bbl while Diesel and Kero-Jet cracks declined by 51.1% to \$5.8/bbl and 61.4% to \$3.3/bbl respectively. Improvement in gasoline crack is due to low global gasoline inventory with a strong demand outlook. Recovery of air travel has been slow causing slower jet recovery as compared with other fuels.

Existing or Probable Government Regulations

Corporate Recovery and Tax Incentives for Enterprises Act (“CREATE Act”). Republic Act 11534 or the CREATE Act, approved into law last March 26, 2021 includes the reduction of regular corporate income tax rates from 30% to 25% for large corporations and 20% for small and medium corporations (with net taxable income less than P5 million and total assets excluding land less than P100 million), reduction of minimum corporate income tax rate from 2% to 1% of gross income and exemption from paying income taxes on dividends received from foreign subsidiaries which are at least 20% owned by a domestic corporation. In addition, local petroleum refineries shall be exempted from paying taxes and duties upon crude importation but will be subject to applicable taxes and duties on finished petroleum products upon lifting of refined petroleum products from the refinery. This provision will level the playing field as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel who only pay after sales tax.

Tax Reform for Acceleration and Inclusion (the “TRAIN Law”). Republic Act 10963 imposes phased increase in excise taxes on petroleum products from 2018-2020. Schedule of increase is P2.65-2-1/li per year for gasoline, P2.50-2-1.50/li for diesel and fuel oil, P1-1-1/kg for LPG, and P0.33-0-0/li for jet fuel. The incremental excise tax will further be subject to 12% VAT. Higher excise taxes can potentially constrain demand growth especially for LPG given there are substitutes such as charcoal, kerosene and electric, and Gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program 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, the cost was eventually passed on to oil companies thru the issuance of DOF-BIR-BOC Joint Memorandum Order No. 1 -2020. As stipulated in the joint memorandum, government commenced with marker fee collection on September 4, 2020 and fuel marker fee is at Php .06884 per liter.

¹ Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, and Asphalt. 1H 2020 is the latest published data.

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

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

LPG Bill. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices, which includes a proposal for a Cylinder Exchange Program and Cylinder Improvement Program. Senate has already passed their version on third reading, while the version from the House of Representatives is still awaiting submission and discussion in their plenary.

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 are subjected to an import duty of 10%. The modified rate will revert back to zero once the Bayanihan to Heal as One Act ceases to be in effect or as soon as the trigger price for international oil has been reached. Subsequently, the Bureau of Customs issued Customs Memorandum Circular (BOC MC) No. 125-2020 which serves as the implementing guidelines of this order, specifying date of effectivity by May 6, 2020. Rates were reverted back to zero on 24 June 2020, based on BOC MC- 128-2020.

PETRON CORPORATION AND SUBSIDIARIES

RECEIVABLES

As of March 31, 2021

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	P20,594
Accounts Receivable – Non-Trade	8,409
Total Accounts Receivable - Net	P29,003

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P19,954
	31 – 60 days	334
	61 – 90 days	77
	Over 90 days	1,062
Total		21,427
Allowance for doubtful accounts		(833)
Accounts Receivable – Trade		P20,594

Interim Financial Report as of March 31, 2021

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

Financial Performance

1Q 2021 vs 1Q 2020

Petron Corporation's positive momentum continued well into the first quarter (1Q) of 2021 from the fourth quarter (4Q) of 2020 as it reported a consolidated net income of **₱ 1.73 billion**, a turnaround from the **₱ 4.88 billion** net loss in the same quarter last year. The upswing in the financial results can be attributed mainly to inventory holding gains resulting from the recent improvements in international oil prices and further boosted by the decline in other importation costs, reduced selling and administrative expenses and lower financing costs.

(In Million Pesos)	2021	2020	Variance - Fav	
			(Unfav)	
			Amt	%
Sales	83,307	104,623	(21,316)	(20)
Cost of Goods Sold	76,529	105,566	29,037	28
Gross Profit (Loss)	6,778	(943)	7,721	(high)
Selling and Administrative Expenses (net of Other Operating Income)	3,117	3,466	349	10
Non-operating Charges	1,513	2,576	1,063	41
Net Income (Loss)	1,730	(4,877)	6,607	(high)
EBITDA	6,388	(1,498)	7,886	(high)
Sales Volume (MB)	19,379	24,661	(5,282)	(21)
Earnings (Loss) per Share (₱)	0.01	(0.58)	0.59	(high)
Return on Sales (%)	2.1	(4.7)	6.8	(high)

Earnings before interest, taxes, depreciation and amortization (EBITDA) significantly improved to **₱ 6.39 billion**, while, earnings per share was **₱ 0.01**.

Highlights of the first quarter performance follow:

- ◆ **Consolidated sales volume** dropped by 21% to **19.4 million barrels (MMB)** from previous year's 24.7 MMB due to continued depressed demand brought about by the pandemic. Commercial and Supply sales were lower due to air travel restrictions and limited economic activities significantly affecting fuel consumption. Meanwhile, the strict mobility and lesser motorists essentially reduced Retail sales.
- ◆ **Net sales** was down by 20% to **₱ 83.31 billion** from LY's **₱ 104.62 billion** due to the 5.3 MB decrease in sales volume partly offset by the upturn in selling price. The improvement in selling price can be traced to higher MOPS in the region, partly offset by the 5% or P2.54 appreciation of the peso versus the US dollar. Benchmark crude Dubai reached US\$64.4/bbl in March 2021, from US\$49.8/bbl in December bringing the 1Q2021 average to US\$60.0/bbl, 18% higher than the US\$50.7/bbl average in 1Q 2020.
- ◆ **Cost of goods sold (CGS)** was lower by 28% at **₱ 76.53 billion** from **₱ 105.57 billion** a year ago also due to the decrease in volume. Despite the lower volume, Petron delivered a gross margin of **₱ 6.78 billion**, a

turnaround from the ₱ 943 million loss reported LY owing to inventory gains as opposed to losses in 1Q2020 as well as savings on importation costs, partly tempered by the thinner product cracks.

- ◆ **Selling and administrative expenses (OPEX)** dropped by 10% or ₱ 349 million to **₱ 3.12 billion** primarily due to the decreases in LPG cylinder purchases, terminalling & storage costs, promo & advertising expenses, and employee costs, partly offset by higher maintenance & repairs.
- ◆ **Net financing costs and other charges** declined by 41% from ₱ 2.58 billion to **₱ 1.51 billion** traced to reduced interest rate and borrowing level. This favorable variance was further improved by higher marked-to-market gains on outstanding commodity hedges and lower foreign exchange swap costs.
- ◆ **Income tax expense** in 1Q 2021 amounted to **₱ 418 million** owing to the income before tax position during the period, a reversal of the ₱ 2.11 billion income tax benefit from the loss before tax a year ago.

1Q 2020 vs 1Q 2019

Petron Corporation posted a consolidated net loss of **₱ 4.88 billion** during the first quarter (1Q) of 2020, a reversal from last year's income of (LY) ₱ 1.30 billion. The Company incurred substantial inventory losses as prices collapsed both in local and international markets. As prices plunged, refining margins continued to be weak amid demand slowdown.

			Variance- Fav (Unfav)	
(In Million Pesos)	2020	2019	Amt	%
Sales	104,623	124,558	(19,935)	(16)
Cost of Goods Sold	105,566	116,083	10,517	9
Gross Margin (Loss)	(943)	8,475	(9,418)	High
Selling and Administrative Expenses (net of Other Operating Income)	3,466	3,610	144	4
Non-operating Charges	2,576	3,152	576	18
Net Income (Loss)	(4,877)	1,303	(6,180)	High
EBITDA	(1,498)	8,000	(9,498)	High
Sales Volume (MB)	24,661	26,343	(1,682)	(6)
Earnings (Loss) per Share (₱)	(0.58)	0.05	(0.63)	High
Return on Sales (%)	(4.7)	1.0	(5.7)	

Earnings before interest, taxes, depreciation and amortization (EBITDA) ended at negative **₱ 1.50 billion**, while, **loss per share** was **₱ 0.58**.

The following factors influenced the first quarter's performance:

- ◆ **Consolidated sales volume** decreased by 6% to **24.7 million barrels (MMB)** from previous year's 26.3 MMB largely due to the drastic drop in demand starting on the 2nd half of March with the implementation of Enhanced Community Quarantine (ECQ) in the Philippines and Movement Control Order (MCO) in Malaysia. The limited mobility and reduced economic activities dampened domestic sales. Commercial sales went down with travel bans imposed within and in and out of the country and reduced

withdrawals of consumer and industrial accounts while Retail sales declined due to lesser motorists on the road. These were tempered by the increase in trading volume of PSTPL.

- ◆ **Net sales** significantly fell by 16% to **₱ 104.62 billion** from LY's ₱ 124.56 billion due to the combined effect of lower selling price and volume. Drop in selling price was traced to the plunge in regional prices of finished products partly offset by the additional excise tax following the implementation of the last tranche of the TRAIN law.
- ◆ **Cost of goods sold (CGS)** at **₱ 105.57 billion** was 9% or ₱ 10.5 billion lower than LY largely due to the decline in sales volume and further pulled down by lower cost per liter. Average price of benchmark crude Dubai dropped by 20% to US\$50.7/bbl from US\$63.5/bbl in 1Q 2019. The sharp dip in Dubai started on March 9 when it dropped 32% overnight settling at US\$23.4/bbl by end-March.
- ◆ **Selling and administrative expenses (OPEX)** was lower by 4% or ₱ 144 million to **₱ 3.47 billion** on account of lower advertising expenses, employee cost, rent and depreciation.
- ◆ **Net financing costs and other charges** dropped by 18% from ₱ 3.15 billion to **₱ 2.58 billion** due to lower average interest rate despite higher average borrowing level, higher net forex hedging gain and the unrealized commodity hedging gains recognized this quarter as opposed to the unrealized loss LY..
- ◆ **Income tax benefit** amounted to **₱ 2.1 billion in 1Q 2020** owing to the loss before tax, as against last year's ₱ 410 million expense.

Financial Position

1Q 2021 vs 2020

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end March 2021 totaled **₱ 347.09 billion**, 1% or ₱ 2.64 billion lower than end 2020 balance of ₱ 349.73 billion. The decline in total assets can be attributed primarily to inventories.

Cash and cash equivalents increased by 11% to **₱ 30.03 billion** from ₱ 27.05 billion mainly from operating activities reduced by the expenditures on capital projects and payment of loans, cash dividends and distributions during the first quarter of 2021.

Financial assets at fair value went up to **₱ 876 million** from ₱ 603 million due to higher gains on outstanding commodity and currency hedging transactions.

Investments in debt instruments (current and non-current) stood **nil** from end 2020 level of ₱ 381 million as this belonged to Petrogen Insurance Corporation (PIC), which was deconsolidated from the Petron group.

Trade and other receivables - net rose by 7% to **₱ 29.00 billion** attributable to the increase in trade and government receivables of foreign subsidiaries, partly offset by the decrease in trade receivables of the Parent Company.

Inventories dropped by ₱ 5.13 billion to **₱ 39.79 billion** mainly from lower volume of crude and finished products versus the end 2020 level.

Other current assets decreased by 5% to **₱ 30.75 billion** from lower input VAT and prepaid insurance.

The decrease in ownership interest of the Parent Company in PIC from 100% to 25.06% gave rise to the recognition of **Investment in shares of stock of an associate** amounting to **₱ 1.00 billion**.

Deferred tax assets – net went down from ₱ 2.19 billion to **₱ 1.99 billion** brought about by the temporary differences with respect to the methods of depreciation and amortization of pension costs per tax accounting in contrast with financial reporting as well as the impact of Create law, partly offset by the effect of the additional Net Operating Loss Carry-over during the quarter.

Other noncurrent assets – net declined to **₱ 1.95 billion** from ₱ 2.09 billion on account of the amortization of deferred input tax and catalysts.

Liabilities for crude oil and petroleum products went up to **₱ 24.37 billion** compared to end-2020 level of ₱ 22.32 billion owing primarily to the continued increase in prices during the first quarter.

Derivative liabilities dropped by 36% to **₱ 714 million** with the decrease in expected settlement on outstanding commodity hedges and currency transactions under hedge accounting.

Income tax payable rose to ₱ 432 million as tax liabilities of foreign subsidiaries increased.

Other noncurrent liabilities stood at **₱ 1.79 billion**, 6% lower than end-2020 level due to lower liabilities from cash flow hedges.

The **negative balance of Equity reserves** increased from ₱ 18.37 billion to **₱ 19.75 billion** principally from the translation loss on the investment in foreign subsidiaries following the strengthening of the peso against the US dollar.

1Q 2020 vs 2019

As of March 31, 2020, the **consolidated assets** of Petron Corporation and its Subsidiaries reached **₱ 368.12 billion**, 7% or ₱ 26.72 billion lower than the end-2019 balance of ₱ 394.84 billion. Aside from the decrease in cash and cash equivalents, inventories and trade receivables also dropped due to lower prices. These were partly offset by the increase in other current assets.

Cash and cash equivalents decreased by ₱ 5.66 billion to **₱ 28.56 billion** as funds were used to finance the increase in working capital requirements and in payment of interests and dividends

Financial assets at fair value went up to **₱ 2.21 billion** from ₱ 864 million on account of higher marked-to-market (MTM) gains on outstanding commodity hedges.

Investments in debt instruments (current and non-current) rose by 7% to **₱ 448 million** traced to additional investment in government securities by the Insurance subsidiary.

Trade and other receivables - net dropped by ₱ 3.30 billion to **₱ 41.36 billion** due to lower prices of fuel products partly offset by higher claims from the government.

Inventories fell by 26% from ₱ 72.21 billion to **₱ 53.62 billion** with the drop in prices of crude and finished products.

Other current assets increased by 8% to **₱ 29.55 billion** from ₱ 27.43 billion due to higher prepaid insurance, input tax and unused creditable withholding taxes.

Deferred tax assets - net rose from ₱ 262 million to **₱ 331 million** with the recognition of the Net Operating Loss Carry-Over (NOLCO) of a subsidiary in Malaysia.

Goodwill – net declined by 5% to **₱ 7.90 billion** owing to currency translation loss with the depreciation of the Ringgit against the US dollar.

Short-term loans climbed to **₱ 80.19 billion** from ₱ 71.09 billion with the net proceeds from the loans availed for working capital during the quarter.

Liabilities for crude oil and petroleum products was cut by more than half from ₱ 39.36 billion to **₱ 18.73 billion** with the drop in prices of inventories and lesser outstanding importations as of end-March 2020.

Trade and other payables went down by 10% from ₱ 28.74 billion to **₱ 25.83 billion** with the settlement of various liabilities to contractors and vendors.

Derivative liabilities grew more than double from ₱ 738 million to **₱ 1.92 billion** attributed to higher expected payout on outstanding commodity hedges.

Income tax payable declined from ₱ 267 million to **₱ 146 million** brought about by lower tax liabilities of foreign subsidiaries.

Deferred tax liability – net decreased by 33% from ₱ 6.35 billion to **₱ 4.24 billion** largely due to the recognition of NOLCO by the Parent Company and a Malaysian subsidiary.

Other noncurrent liabilities rose by 5% to **₱ 1.84 billion** traced to higher LPG cylinder deposit.

Retained earnings dropped by 15% to **₱ 38.73 billion**, on account of the ₱ 4.61 billion net loss attributable to the equity holders of the Parent Company during the quarter, coupled with the payment of cash dividends and distributions totaling ₱ 2.17 billion.

The **negative balance of Equity reserves** increased from ₱ 12.20 billion to **₱ 14.21 billion** mainly due to the translation loss on its investments in foreign subsidiaries as a result of the strengthening of the peso against the US dollar.

Non-controlling interests decreased by 9% to **₱ 6.19 billion** from the ₱ 6.77 billion as of end 2019 corresponding to its proportionate share in net loss during the quarter, as well as the cash dividends declared to minority shareholders and currency translation adjustment.

Cash Flows

1Q 2021 vs 1Q 2020

As of end-March 2021, cash and cash equivalents stood at **₱ 30.03 billion**. During the first three months, cash generated from operations amounting to ₱ 11.18 billion were used to settle matured loans, finance various capital expenditure at the refinery, service stations and terminals and pay dividends, distributions and interests.

In Million Pesos	Mar. 31, 2021	Mar. 31, 2020	Change
Operating (outflows) inflows	9,394	(9,080)	18,474
Investing (outflows) inflows	(1,976)	(2,532)	556
Financing inflows (outflows)	(4,688)	5,939	(10,627)

1Q 2020 vs 1Q 2019

Cash and cash equivalents amounted to ₱ 28.56 billion as of end-March 2020. Cash generated from financing activities of ₱ 5.94 billion was used to finance the increase in working capital requirements. Available cash was also spent on various projects at the refinery, terminals and service stations (₱ 2.12 billion) and in payments of interest and taxes (₱ 3.20 billion) as well as dividends and distributions (₱ 1.26 billion).

Discussion of the company's key performance indicators:

Ratio	31-Mar-21	31-Dec-20
Current Ratio	0.9	0.9
Total Interest-bearing Debt to Equity Ratio	2.3	2.3
Return on Equity (%)	(5.6)	(12.8)
Interest Rate Coverage Ratio	1.9	(0.4)
Assets to Equity Ratio	4.1	4.1

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, higher current ratio indicates greater ability of the company to pay currently maturing obligations.

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 fund in the statements of financial position. A business that has a high return on equity is more likely capable of generating cash internally. 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 interest).

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

PART II – OTHER INFORMATION

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

NONE.

SIGNATURES

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

Registrant: **PETRON CORPORATION**

Signature and Title: 

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

Date: May 12, 2021

Principal Financial/Accounting Officer/Controller

Signature and Title: 

MYRNA C. GERONIMO
Vice President - Controllers 

Date: May 12, 2021

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	March 31, 2021	December 31, 2020
Liquidity			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.87	0.89
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	0.40	0.37
Solvency			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	2.29	2.29
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	4.08	4.06
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	1.88	-0.43
Profitability			
f) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	-5.61%	-12.78%
g) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	-1.38%	-3.07%
Operating Efficiency			
h) Volume Growth	$\left(\frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	-21.42%	-26.53%
i) Sales Growth	$\left(\frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	-20.37%	-44.39%
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	4.40%	-1.62%

^a trailing 12 months net income

^b excludes lease liabilities