

COVERSHEET

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

P E T R O N C O R P O R A T I O N  
  
  
  
(Company's Full Name)

S M C H E A D O F F I C E 4 0 S A N M I G U E L  
A V E . M A N D A L U Y O N G C I T Y  
(Business Address: No. Street City / Town / Province)

ATTY. JOEL ANGELO C. CRUZ  
Contact Person

8-884-9200  
Company Telephone Number

1 2 - 3 1  
Month Day  
Fiscal Year

SEC Form 17-Q 3rd Quarter 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

144,865 (as of September 30, 2021)  
Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



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 September 30 2021	Audited December 31 2020
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9, 10	P34,414	P27,053
Financial assets at fair value	9, 10	782	603
Investments in debt instruments	9, 10	-	184
Trade and other receivables - net	7, 9, 10	34,069	27,195
Inventories		62,798	44,922
Other current assets	3, 7	32,980	32,337
<b>Total Current Assets</b>		<b>165,043</b>	<b>132,294</b>
<b>Noncurrent Assets</b>			
Investments in debt instruments	9, 10	-	197
Investment in shares of stock of an associate	7, 11, 14	1,062	-
Property, plant and equipment - net	5, 6	171,010	168,831
Right-of-use assets - net		5,702	6,045
Investment property - net		29,086	30,049
Deferred tax assets - net	3	1,832	2,190
Goodwill - net		8,214	8,031
Other noncurrent assets - net	9, 10	1,615	2,088
<b>Total Noncurrent Assets</b>		<b>218,521</b>	<b>217,431</b>
		<b>P383,564</b>	<b>P349,725</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	8, 9, 10	P98,101	P77,704
Liabilities for crude oil and petroleum products	9, 10	27,770	22,320
Trade and other payables	7, 9, 10	14,723	15,402
Lease liabilities - current portion	9, 10	1,138	1,243
Derivative liabilities	9, 10	1,155	1,124
Income tax payable		352	162
Current portion of long-term debt - net	9, 10	28,974	31,114
<b>Total Current Liabilities</b>		<b>172,213</b>	<b>149,069</b>

Forward

	<i>Note</i>	Unaudited September 30 2021	Audited December 31 2020
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	9, 10	P70,695	P88,340
Retirement benefits liability - net		3,440	3,705
Deferred tax liabilities - net	3	3,670	3,084
Lease liabilities - net of current portion	9, 10	13,976	14,561
Asset retirement obligation		2,966	2,867
Other noncurrent liabilities	9, 10	1,706	1,904
<b>Total Noncurrent Liabilities</b>		<b>96,453</b>	114,461
<b>Total Liabilities</b>		<b>268,666</b>	263,530
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		9,485	9,485
Additional paid-in capital		37,500	37,500
Capital securities	11	62,812	36,481
Retained earnings	3, 11	31,190	29,799
Equity reserves	3	(18,069)	(18,371)
Treasury stock		(15,122)	(15,122)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>107,796</b>	79,772
<b>Non-controlling Interests</b>		<b>7,102</b>	6,423
<b>Total Equity</b>		<b>114,898</b>	86,195
		<b>P383,564</b>	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)

	<i>Note</i>	July to September		January to September	
		2021	2020	2021	2020
<b>SALES</b>	5	<b>P117,442</b>	P64,073	<b>P291,573</b>	P216,430
<b>COST OF GOODS SOLD</b>		<b>109,772</b>	56,888	<b>268,767</b>	217,238
<b>GROSS PROFIT (LOSS)</b>		<b>7,670</b>	7,185	<b>22,806</b>	(808)
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>		<b>(3,344)</b>	(3,066)	<b>(10,135)</b>	(9,978)
<b>OTHER OPERATING INCOME</b>		<b>137</b>	60	<b>740</b>	422
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	5	<b>(2,515)</b>	(2,549)	<b>(7,291)</b>	(8,342)
<b>INTEREST INCOME</b>	5	<b>150</b>	128	<b>409</b>	537
<b>OTHER INCOME (EXPENSES) - Net</b>		<b>(914)</b>	693	<b>(409)</b>	261
		<b>(6,486)</b>	(4,734)	<b>(16,686)</b>	(17,100)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>1,184</b>	2,451	<b>6,120</b>	(17,908)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	5	<b>72</b>	821	<b>1,135</b>	(5,302)
<b>NET INCOME (LOSS)</b>		<b>P1,112</b>	P1,630	<b>P4,985</b>	(P12,606)
<b>Attributable to:</b>					-
Equity holders of the Parent Company		<b>P1,006</b>	P1,326	<b>P4,416</b>	(P12,436)
Non-controlling interests		<b>106</b>	304	<b>569</b>	(170)
		<b>P1,112</b>	P1,630	<b>P4,985</b>	(P12,606)
<b>BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	12	<b>(P0.03)</b>	P0.01	<b>0.15</b>	(1.64)

*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)

	July to September		January to September	
	2021	2020	2021	2020
<b>NET INCOME (LOSS)</b>	<b>P1,111</b>	P1,630	<b>P4,985</b>	(P12,606)
<b>OTHER COMPREHENSIVE LOSS</b>				
<b>Item that will not be reclassified to profit or loss</b>				
Equity reserve for retirement plan	-	-	(119)	-
Income tax expense	-	-	(236)	-
	-	-	(355)	-
<b>Items that may be reclassified to profit or loss</b>				
Net income on cash flow hedges	21	117	165	87
Exchange differences on translation of foreign operations	1,629	264	701	(2,199)
Unrealized fair value gain (loss) on investments in debt instruments at fair value through other comprehensive income	-	(1)	-	2
Share in other comprehensive income (loss) of a joint venture	(2)	-	(2)	1
Income tax expense	(5)	(35)	(55)	(27)
	1,643	345	809	(2,136)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>	<b>1,643</b>	345	<b>454</b>	(2,136)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - Net of tax</b>	<b>P2,754</b>	P1,975	<b>P5,439</b>	(P14,742)
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P2,413</b>	P1,647	<b>P4,718</b>	(P14,234)
Non-controlling interests	<b>341</b>	328	<b>721</b>	(508)
	<b>P2,754</b>	P1,975	<b>5,439</b>	(P14,742)

*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)

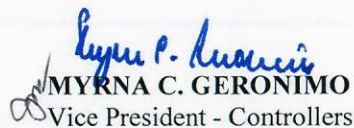
	Note	Equity Attributable to Equity Holders of the Parent Company									Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Total		
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
<b>As of January 1, 2021 (Audited)</b>		P9,485	P37,500	P36,481	P15,000	P14,799	(P5,148)	(P13,223)	(P15,122)	P79,772	P6,423	P86,195
Net income on cash flow hedges - net of tax		-	-	-	-	-	-	121	-	121	-	121
Net loss on cash flow hedges - net of tax	3	-	-	-	-	-	(355)	(11)	-	(366)	-	(366)
Share in other comprehensive loss of a joint venture		-	-	-	-	-	-	(2)	-	(2)	-	(2)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	549	-	549	152	701
Other comprehensive income (loss) for the period		-	-	-	-	-	(355)	657	-	302	152	454
Net income for the period		-	-	-	-	4,416	-	-	-	4,416	569	4,985
Total comprehensive income (loss) for the period		-	-	-	-	4,416	(355)	657	-	4,718	721	5,439
Cash dividends	13	-	-	-	-	(1,203)	-	-	-	(1,203)	(42)	(1,245)
Distributions paid	13	-	-	-	-	(1,822)	-	-	-	(1,821)	-	(1,822)
Issuance of Redeemable Perpetual Securities (RPS)		-	-	26,331	-	-	-	-	-	26,331	-	26,331
Reversal of Appropriation	11	-	-	-	(8,000)	8,000	-	-	-	-	-	-
Transactions with owners		-	-	26,331	(8,000)	4,975	-	-	-	23,307	(42)	23,264
<b>As of September 30, 2021 (Unaudited)</b>		P9,485	P37,500	P62,812	P7,000	P24,190	(P5,503)	(P12,566)	(P15,122)	P107,796	P7,102	P114,898

Forward

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

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)

		<b>For the Nine Months Ended September 30</b>	
	<i>Note</i>	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax		<b>P6,120</b>	(P17,908)
Adjustments for:			
Depreciation and amortization	5	7,237	6,678
Interest expense and other financing charges	5	7,291	8,342
Retirement benefits costs		255	92
Unrealized foreign exchange losses (gains) - net		3,282	(1,898)
Interest income	5	(409)	(536)
Share in net gain of an associate		(58)	-
Other gains		(951)	(1,115)
Operating income (loss) before working capital changes		<b>22,767</b>	(6,345)
Changes in noncash assets, certain current liabilities and others		<b>(22,312)</b>	12,948
Cash generated from operations		455	6,603
Contributions to retirement fund		(560)	(255)
Interest paid		(6,848)	(8,568)
Income taxes prepayment (paid)		357	(93)
Interest received		488	635
Net cash flows used in operating activities		<b>(6,108)</b>	(1,678)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	6	(6,732)	(5,571)
Proceeds from sale of property and equipment		31	83
Additions to investment property		(344)	(943)
Reductions from financial assets at FVOCI		-	2
Increase in other noncurrent assets		(4)	(42)
Net cash flows used in investing activities		<b>(7,049)</b>	(6,471)

*Forward*




**For the Nine Months Ended  
September 30**

		2021	2020
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans	8	<b>P137,353</b>	P123,314
Payments of:			
Loans	8	<b>(139,716)</b>	(119,794)
Lease liabilities		<b>(1,773)</b>	(940)
Cash dividends and distributions	13	<b>(3,056)</b>	(3,920)
Issuance of capital securities		<b>26,331</b>	11,347
Net cash flows provided by financing activities		<b>19,139</b>	10,007
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		<b>1,379</b>	(1,328)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>7,361</b>	530
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			
		<b>27,053</b>	34,218
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
		<b>P34,414</b>	P34,748

*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)

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#### **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.

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#### **2. Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its interim consolidated financial statements as at and for the period ended September 30, 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 November 9, 2021.

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (P000,000), 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

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

#### *Amended Standards 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:

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16) beyond June 30, 2021. The optional practical expedient introduced in the 2020 amendments that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 and which solely applies to reduction in lease payments originally due on or before June 30, 2021 has been extended to June 30, 2022. The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond June 30, 2021.

The 2021 amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are applied retrospectively with the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings. Earlier application is permitted.

- 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 of which the following are applicable to the Group:
  - 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, 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 International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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### **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)
<b>ASSETS</b>	
Prepaid expenses and other current assets	P4
Deferred tax assets	(224)
	<b>(P220)</b>
<b>LIABILITIES</b>	
Deferred tax liabilities	P28
	<b>P28</b>
<b>EQUITY</b>	
Equity reserves	P366
Retained earnings	(174)
	<b>P192</b>
	<b>(P220)</b>
<b>INCOME TAX EXPENSE</b>	
Current	(P4)
Deferred	(170)
	<b>(P174)</b>

#### 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 except in the evaluation of control over its investees. As of February 4, 2021, management assessed that the Group has lost its control over Petrogen Insurance Corporation (Petrogen) upon the subscription of SMC to the increase in authorized capital stock of Petrogen. (Note 7, 11 and 14).

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, Iraq, Korea, Malaysia, Singapore, 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 September 30, 2021, December 31, 2020 and September 30, 2020:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>September 30, 2021</b>						
Revenue:						
External sales	P289,772	P -	P863	P664	P274	P291,573
Inter-segment sales	111,071	85	297	-	(111,453)	-
Operating income	13,128	75	178	47	(17)	13,411
Net income	5,792	78	121	55	(1,061)	4,985
Assets and liabilities:						
Segment assets*	425,901	3,314	9,956	684	(58,123)	381,732
Segment liabilities*	282,740	1,703	4,823	117	(24,387)	264,996
Other segment information:						
Property, plant and equipment - net	170,434	-	-	97	479	171,010
Depreciation and amortization	7,299	-	63	12	(137)	7,237
Interest expense	7,397	-	224	1	(331)	7,291
Interest income	475	4	171	2	(243)	409
Income tax expense	1,139	3	2	6	(15)	1,135

\*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
<b>December 31, 2020</b>						
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	374	(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 (benefit)	(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
<b>September 30, 2020</b>						
Revenue:						
External sales	P214,918	P -	P861	P474	P177	P216,430
Inter-segment sales	64,205	78	312	-	(64,595)	-
Operating income (loss)	(10,860)	61	206	57	172	(10,364)
Net income (loss)	(11,836)	95	104	56	(1,025)	(12,606)
Assets and liabilities:						
Segment assets*	386,388	4,774	9,937	704	(53,890)	347,913
Segment liabilities*	274,553	3,324	4,969	111	(20,830)	262,127
Other segment information:						
Property, plant and equipment - net	166,928	-	-	111	435	167,474
Depreciation and amortization	6,730	-	7	(65)	6	6,678
Interest expense	8,456	-	236	-	(350)	8,342
Interest income	588	25	173	5	(254)	537
Income tax expense (benefit)	(5,360)	11	39	6	2	(5,302)

\*excluding deferred tax assets and liabilities

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

Inter-segment sales transactions amounted to P111,453, P86,854 and P64,595 for the periods ended September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended September 30, 2021, December 31, 2020 and September 30, 2020:

	Retail	Lube	Gasul	Industrial	Others	Total
<b>September 30, 2021</b>						
Revenue	<b>P138,643</b>	<b>P4,033</b>	<b>P17,227</b>	<b>P48,370</b>	<b>P81,499</b>	<b>P289,772</b>
Property, plant and equipment	<b>8,194</b>	<b>34</b>	<b>222</b>	<b>10</b>	<b>161,974</b>	<b>170,434</b>
Capital expenditures	<b>1,380</b>	<b>4</b>	<b>13</b>	<b>1</b>	<b>12,314</b>	<b>13,712</b>
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
September 30, 2020						
Revenue	P109,525	P2,525	P15,062	P47,177	P40,629	P214,918
Property, plant and equipment	8,423	39	268	14	158,184	166,928
Capital expenditures	1,966	1	11	-	19,840	21,818

#### Geographical Segments

The following table presents segment assets of the Group as of September 30, 2021, December 31, 2020 and September 30, 2020:

	September 30, 2021	December 31, 2020	September 30, 2020
Local	<b>P304,117</b>	P282,871	P286,700
International	<b>77,615</b>	64,664	61,213
	<b>P381,732</b>	P347,535	P347,913

#### Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended September 30, 2021, December 31, 2020 and September 30, 2020:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>September 30, 2021</b>						
Local	<b>P155,262</b>	<b>P4</b>	<b>P1,160</b>	<b>P664</b>	<b>(P706)</b>	<b>P156,384</b>
Export/international	<b>245,581</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>(110,473)</b>	<b>135,189</b>
December 31, 2020						
Local	P165,139	P -	P1,565	P674	(P558)	P166,820
Export/international	205,109	76	-	-	(85,972)	119,213
September 30, 2020						
Local	P125,293	P23	P1,173	P474	(P483)	P126,480
Export/international	153,830	55	-	-	(63,935)	89,950

\*\*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 September 30, 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
<b>Cost:</b>							
January 1, 2020 (Audited)	22,717	192,451	19,280	5,652	4,162	16,872	P261,134
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	76	1,496	103	65	92	5,187	7,019
Disposals/reclassifications	660	10,142	18	192	45	(11,307)	(250)
Currency translation adjustment	293	691	219	53	43	(268)	1,031
<b>September 30, 2021 (Unaudited)</b>	<b>24,526</b>	<b>206,578</b>	<b>20,124</b>	<b>6,197</b>	<b>4,314</b>	<b>13,794</b>	<b>275,533</b>
<b>Accumulated Depreciation and Amortization:</b>							
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)	(20)	(44)	(84)	3	-	(218)
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	647	3,396	711	324	68	-	5,146
Disposals/reclassifications	(42)	-	3	(31)	(4)	-	(74)
Currency translation adjustment	168	218	122	40	1	-	549
<b>September 30, 2021 (Unaudited)</b>	<b>14,566</b>	<b>68,858</b>	<b>14,526</b>	<b>5,327</b>	<b>1,246</b>	<b>-</b>	<b>104,523</b>
<b>Carrying Amount:</b>							
December 31, 2020 (Audited)	P9,704	P129,005	P6,094	P893	P2,953	P20,182	P168,831
<b>September 30, 2021 (Unaudited)</b>	<b>P9,960</b>	<b>P137,720</b>	<b>P5,598</b>	<b>P870</b>	<b>P3,068</b>	<b>P13,794</b>	<b>P171,010</b>

### Capital Commitments

As of September 30, 2021 and December 31, 2020, the Group has outstanding commitments to acquire property, plant and equipment amounting to P8,291 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 September 30, 2021 and December 31, 2020 follow:

	<i>Note</i>	<b>Year</b>	<b>Revenues from Related Parties</b>	<b>Purchases from Related Parties</b>	<b>Amounts Owed by Related Parties</b>	<b>Amounts Owed to Related Parties</b>	<b>Terms</b>	<b>Conditions</b>
Retirement Plan	<i>a</i>	<b>2021</b> 2020	<b>P58</b> 93	<b>P -</b> -	<b>P1,618</b> 1,562	<b>P -</b> -	On demand; long-term; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e,g,h</i>	<b>2021</b> 2020	<b>10</b> 7	<b>119</b> 174	<b>8</b> 11	<b>304</b> 251	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d</i> <i>g,h,i,j,k</i>	<b>2021</b> 2020	<b>5,128</b> 4,764	<b>3,037</b> 4,445	<b>2,434</b> 1,157	<b>2,003</b> 1,918	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c,f,g</i>	<b>2021</b> 2020	- -	- -	<b>1</b> 4	- -	On demand; non-interest bearing	Unsecured no impairment
		<b>2021</b>	<b>P5,196</b>	<b>P3,156</b>	<b>P4,061</b>	<b>P2,307</b>		
		<b>2020</b>	<b>P4,864</b>	<b>P4,619</b>	<b>P2,734</b>	<b>P2,169</b>		

- 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, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- d. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,683 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 Manila North Harbour Port, Inc (MNHPI) representing 0.17% interest was sold to a related party at a gain in 2020.
- k. On February 4, 2021, Petrogen 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 (Note 14).



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## 8. Loans and Borrowings

### Short-term Loans

The movements of short-term loans for nine months ended September 30, 2021 follow:

<b>Balance as of January 1, 2021</b>	<b>P77,704</b>
Loan availments	<b>137,353</b>
Loan repayments	<b>(117,219)</b>
Currency translation adjustment	<b>263</b>
<b>Balance as of September 30, 2021</b>	<b>P98,101</b>

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 6 to 90 days and annual interest ranging from 1.18% to 2.95% and 0.92% to 6.75% as of and for the periods ended September 30, 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 September 30, 2021 and December 31, 2020 the Group has complied with the provisions of its debt agreements.

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## 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:

	September 30, 2021		December 31, 2020	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	555	28,325	455	21,827
Trade and other receivables	248	12,648	137	6,589
Other assets	12	587	18	869
	815	41,560	610	29,285
<b>Liabilities</b>				
Short-term loans	158	8,043	124	5,971
Liabilities for crude oil and petroleum products	508	25,923	434	20,853
Long-term debt (including current maturities)	884	45,072	1,266	60,786
Other liabilities	138	7,042	134	6,430
	1,688	86,080	1,958	94,040
<b>Net foreign currency -denominated monetary liabilities</b>	<b>(873)</b>	<b>(44,520)</b>	<b>(1,348)</b>	<b>(64,755)</b>

The Group incurred net foreign currency exchange gains/(losses) amounting to (P1,358) and P2,099 for the periods ended September 30, 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\$
<b>September 30, 2021</b>	<b>51.000</b>
December 31, 2020	48.023
September 30, 2020	49.495

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of September 30, 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
<b>September 30, 2021</b>				
Cash and cash equivalents	(P408)	(P453)	P408	P453
Trade and other receivables	(73)	(269)	73	269
Other assets	(6)	(10)	6	10
	(487)	(732)	487	732
Short-term loans	-	158	-	(158)
Liabilities for crude oil and petroleum products	267	695	(267)	(695)
Long-term debts (including current maturities)	884	663	(884)	(663)
Other liabilities	23	145	(23)	(145)
	1,174	1,661	(1,174)	(1,661)
	P687	P929	(P687)	(P929)

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 P338 and P538 for the period ended September 30, 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 September 30, 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:

September 30, 2021	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P19,893	P4,268	P23,593	P938	P6,800	P -	P55,492
Interest rate	4.0% - 5.8%	4.6% - 5.8%	4.5% - 7.8%	4.6%	8.1%		
<b>Floating Rate</b>							
US\$ denominated (expressed in Php)	7,257	19,300	11,658	-	-	-	38,215
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)	1,959	1,959	1,959	980	-	-	6,857
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			
	<b>P29,109</b>	<b>P25,527</b>	<b>P37,210</b>	<b>P1,918</b>	<b>P6,800</b>	<b>P -</b>	<b>P100,564</b>

\*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
<b>Fixed Rate</b>							
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%		
<b>Floating Rate</b>							
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			
	<b>P31,562</b>	<b>P26,726</b>	<b>P30,569</b>	<b>P23,542</b>	<b>P8,423</b>	<b>P -</b>	<b>P120,822</b>

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

### Credit Risk

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

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

	September 30, 2021	December 31, 2020
Cash in banks and cash equivalents	<b>P26,654</b>	P25,970
Derivative assets	<b>520</b>	334
Investments in debt instruments	-	381
Trade and other receivables - net	<b>34,069</b>	27,195
Noncurrent deposits	<b>128</b>	121
	<b>P61,371</b>	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 P4,764 and P4,784 as of September 30, 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.

September 30, 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	P26,654	P -	P -	P -	P -	P26,654
Trade and other receivables	-	34,069	1,038	-	-	35,107
Derivative assets not designated as cash flow hedge	-	-	-	460	-	460
Derivative assets designated as cash flow hedge	-	-	-	-	60	60
Long-term receivables	-	-	314	-	-	314
Noncurrent deposits	128	-	-	-	-	128
	<b>P26,782</b>	<b>P34,069</b>	<b>P1,352</b>	<b>P460</b>	<b>P60</b>	<b>P62,723</b>

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
	<b>P26,346</b>	<b>P27,195</b>	<b>P1,302</b>	<b>P322</b>	<b>P138</b>	<b>P55,303</b>

### Liquidity Risk

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

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of September 30, 2021 and December 31, 2020.

<b>September 30, 2021</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	<b>P34,414</b>	<b>P34,414</b>	<b>P34,414</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables - net	<b>34,069</b>	<b>34,069</b>	<b>34,069</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative assets (including noncurrent portion)	<b>520</b>	<b>520</b>	<b>480</b>	<b>13</b>	<b>27</b>	<b>-</b>
Proprietary membership shares	<b>303</b>	<b>303</b>	<b>303</b>	<b>-</b>	<b>-</b>	<b>-</b>
Noncurrent deposits	<b>128</b>	<b>128</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>125</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>98,101</b>	<b>98,310</b>	<b>98,310</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities for crude oil and petroleum products	<b>27,770</b>	<b>27,770</b>	<b>27,770</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables*	<b>8,969</b>	<b>8,969</b>	<b>8,969</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative liabilities (including noncurrent portion)	<b>1,206</b>	<b>1,254</b>	<b>1,155</b>	<b>79</b>	<b>20</b>	<b>-</b>
Long-term debts (including current maturities)	<b>99,669</b>	<b>109,389</b>	<b>32,782</b>	<b>28,344</b>	<b>48,263</b>	<b>-</b>
Lease liability (including current portion)	<b>15,113</b>	<b>26,273</b>	<b>1,961</b>	<b>1,942</b>	<b>5,333</b>	<b>17,037</b>
Cash bonds	<b>950</b>	<b>950</b>	<b>-</b>	<b>934</b>	<b>15</b>	<b>1</b>
Cylinder deposits	<b>660</b>	<b>660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>660</b>
Other noncurrent liabilities**	<b>42</b>	<b>42</b>	<b>-</b>	<b>4</b>	<b>21</b>	<b>17</b>

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

\*\*excluding cash bonds, cylinder deposits and derivative liabilities

<b>December 31, 2020</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	<b>P27,053</b>	<b>P27,053</b>	<b>P27,053</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables - net	<b>27,195</b>	<b>27,195</b>	<b>27,195</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative assets (including noncurrent portion)	<b>334</b>	<b>334</b>	<b>328</b>	<b>6</b>	<b>-</b>	<b>-</b>
Proprietary membership shares	<b>275</b>	<b>275</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments in debt instruments	<b>381</b>	<b>585</b>	<b>381</b>	<b>142</b>	<b>62</b>	<b>-</b>
Noncurrent deposits	<b>121</b>	<b>121</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>118</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>77,704</b>	<b>77,704</b>	<b>77,704</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities for crude oil and petroleum products	<b>22,320</b>	<b>22,320</b>	<b>22,320</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables*	<b>9,402</b>	<b>9,402</b>	<b>9,402</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative liabilities (including noncurrent portion)	<b>1,416</b>	<b>1,416</b>	<b>1,124</b>	<b>201</b>	<b>91</b>	<b>-</b>
Long-term debts (including current maturities)	<b>119,454</b>	<b>133,312</b>	<b>36,690</b>	<b>30,031</b>	<b>66,591</b>	<b>-</b>
Lease liability (including current portion)	<b>15,804</b>	<b>22,406</b>	<b>1,913</b>	<b>1,731</b>	<b>4,735</b>	<b>14,027</b>
Cash bonds	<b>947</b>	<b>947</b>	<b>-</b>	<b>931</b>	<b>15</b>	<b>1</b>
Cylinder deposits	<b>617</b>	<b>617</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>617</b>
Other noncurrent liabilities**	<b>48</b>	<b>48</b>	<b>-</b>	<b>11</b>	<b>19</b>	<b>18</b>

\*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:

	<b>September 30, 2021</b>	December 31, 2020
Total assets	<b>P383,564</b>	P349,725
Total liabilities	<b>268,666</b>	263,530
Total equity	<b>114,898</b>	86,195
Debt to equity ratio	<b>2.3:1</b>	3.1:1
Assets to equity ratio	<b>3.3:1</b>	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.

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## **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 amortized cost. 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 September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets (FA):</b>				
Cash and cash equivalents	<b>P34,414</b>	<b>P34,414</b>	P27,053	P27,053
Trade and other receivables – net	<b>34,069</b>	<b>34,069</b>	27,195	27,195
Investments in debt instruments	-	-	255	255
Noncurrent deposits	<b>128</b>	<b>128</b>	121	121
<b>FA at amortized cost</b>	<b>68,611</b>	<b>68,611</b>	54,624	54,624
Investments in debt instruments	-	-	126	126
Derivative assets designated as cash flow hedge	<b>60</b>	<b>60</b>	12	12
<b>FA at FVOCI</b>	<b>60</b>	<b>60</b>	138	138
Proprietary membership shares	<b>303</b>	<b>303</b>	275	275
Derivative assets not designated as cash flow hedge	<b>460</b>	<b>460</b>	322	322
<b>FA at FVPL</b>	<b>763</b>	<b>763</b>	597	597
<b>Total Financial Assets</b>	<b>P69,434</b>	<b>P69,434</b>	P55,359	P55,359
<b>Financial liabilities (FL):</b>				
Short-term loans	<b>P98,101</b>	<b>P98,101</b>	P77,704	P77,704
Liabilities for crude oil and petroleum products	<b>27,770</b>	<b>27,770</b>	22,320	22,320
Trade and other payables*	<b>8,969</b>	<b>8,969</b>	9,402	9,402
Long-term debts including current portion	<b>99,669</b>	<b>99,669</b>	119,454	119,454
Derivative liabilities designated as cash flow hedge	<b>171</b>	<b>171</b>	592	592
Cash bonds	<b>950</b>	<b>950</b>	947	947
Cylinder deposits	<b>660</b>	<b>660</b>	617	617
Other noncurrent liabilities**	<b>42</b>	<b>42</b>	47	47
<b>Other FL</b>	<b>236,332</b>	<b>236,332</b>	231,083	231,083
Derivative liabilities not designated as cash flow hedge	<b>1,035</b>	<b>1,035</b>	824	824
<b>Total Financial Liabilities</b>	<b>P237,367</b>	<b>P237,367</b>	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 September 30, 2021 and December 31, 2020 are 7.72% 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:

September 30, 2021	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
<b>Foreign currency risk</b>				
<b>Call spread swaps</b>				
Notional amount (in million)	US\$40			US\$40
Average strike rate	P51.96 to P54.47			
<b>Foreign currency and interest rate risk</b>				
<b>Cross currency swap</b>				
Notional amount (in million)	US\$10	US\$20	US\$20	US\$50
Average strike rate	P47.00 to P57.50	P47.00 to P56.50	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
<b>Interest rate risk</b>				
<b>Interest rate collar</b>				
Notional amount (in million)		US\$30	US\$30	US\$60
Interest rate		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	
<b>Foreign currency risk</b>				
<b>Call spread swaps</b>				
Notional amount (in million)	US\$50	US\$50		US\$100
Average strike rate	P52.41 to P54.87	P52.41 to P55.02		
<b>Foreign currency and interest rate risk</b>				
<b>Cross currency swap</b>				
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%	
<b>Interest rate risk</b>				
<b>Interest rate collar</b>				
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.

September 30, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign currency risk</b>			
US dollar-denominated loan	(P1)	P-	P1
<b>Foreign currency and interest rate risks</b>			
US dollar-denominated loan	98	(98)	68
<b>Interest rate risks</b>			
US dollar-denominated loan	14	(11)	-

December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
<b>Foreign currency risk</b>			
US dollar-denominated loan	P85	P-	(P40)
<b>Foreign currency and interest rate risks</b>			
US dollar-denominated loan	467	(187)	94
<b>Interest rate risks</b>			
US dollar-denominated loan	28	(20)	-

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

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

September 30, 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						
<b>Foreign currency risk:</b>									
Call spread swaps	US\$40	P20	P19	Financial assets at FVPL, Derivative liabilities	P1	P11	(P28)	P48	Other income (expenses) - net
<b>Foreign currency and interest rate risks:</b>									
Cross currency swap	US\$50	P40	P138	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P98)	(P176)	(P276)	P132	Interest expense and other financing charges, Other income (expenses) - net
<b>Interest rate risk</b>									
Interest rate collar	US\$60	P-	P14	Derivative liabilities, Other noncurrent liabilities	(P14)	(P12)	P-	P12	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						
<b>Foreign currency risk:</b>									
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
<b>Foreign currency and interest rate risks:</b>									
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
<b>Interest rate risk</b>									
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.

	September 30, 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	28	11	(28)	(23)
Foreign currency risk and interest rate risk	413	(176)	(102)	(234)
Interest rate risk	14	(12)	(35)	(9)
Amount reclassified to profit or loss				
Foreign currency risk	(28)	48	28	166
Foreign currency risk and interest rate risk	(276)	132	129	200
Interest rate risk	-	12	-	9
Income tax effect	(53)	-	2	(33)
Balance at end of period	(P109)	P69	(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 September 30, 2021, the Group has outstanding call spread swaps US\$40 million maturing on December 2021. The net positive fair value of these call spread swaps amounted to P3.12 million.

*Cross Currency Swaps.* As of September 30, 2021, the Group has outstanding cross currency swaps with a notional amount US\$30 million maturing on November 2021, December 2021 and May 2022. The net negative fair value of these cross currency swaps amounted to P39.11 million.

*Interest Rate Collar.* As of September 30, 2021, the Group has outstanding interest rate collar with a notional amount US\$30 million maturing on November 2021 and May 2022. The net negative fair value of this interest rate collar amounted to P2.18 million.

#### *Freestanding Derivatives*

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

*Currency Forwards.* As of September 30, 2021 and December 31, 2020, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$449 million and US\$395 million, respectively, and with various maturities. As of September 30, 2021 and December 31, 2020, the net fair value of these currency forwards amounted to P229 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 20.5 million barrels and

32.8 million barrels as of September 30, 2021 and December 31, 2020, respectively. The estimated net pay-outs for these transactions amounted to (P652) and (P754) as of September 30, 2021 and December 31, 2020, respectively.

*Commodity Options.* As of September 30, 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 September 30, 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 September 30, 2021 and December 31, 2020, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2021 and 2020, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P226 and (P1,522), 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 September 30, 2021 and December 31, 2020.

	<b>Level 2</b>	
	<b>September 30, 2021</b>	December 31, 2020
Financial Assets:		
FVPL	<b>P303</b>	P275
Derivative assets	<b>520</b>	334
Investments in debt instruments	-	126
Financial Liabilities:		
Derivative liabilities	<b>(1,206)</b>	(1,416)

The Group has no financial instruments valued based on Level 1 and Level 3 as of September 30, 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 February 4, 2021, SMC subscribed 1,494,973 common shares with an aggregate par value of P1,495 and corresponding stock certificate was issued to SMC on March 1, 2021 (Note 14).
- 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 P68.
- 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 plant project.
- d. On April 19, 2021, Petron issued US\$550 million Senior Perpetual Capital Securities (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 were used for the repayment of indebtedness and for general corporate purposes.
- e. On June 22, 2021, the Executive Committee of the BOD of the Parent Company approved the proposal of Management for an additional US\$1 million investment in Overseas Ventures Insurance Corporation Ltd. (Ovincor). This is to expand Ovincor's capability to retain a bigger share of insurance cover for the Parent Company.

## 12. Basic and Diluted Earnings (Loss) per Share

Basic and diluted earnings (loss) per share amounts for the nine months ended September 30, 2021 and 2020 are computed as follows:

	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	<b>P4,416</b>	(P12,436)
Dividends on preferred shares for the period	<b>(1,203)</b>	(1,192)
Distributions to the holders of capital securities for the period	<b>(1,821)</b>	(1,714)
Net income (loss) attributable to common shareholders of the Parent Company (a)	<b>P1,392</b>	(P15,342)
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.15</b>	(P1.64)

As of September 30, 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
<b>2021</b>				
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
Series 2B	17.14575	May 3, 2021	July 8, 2021	August 3, 2021
Series 3A	17.17825	May 3, 2021	September 2, 2021	September 27, 2021
Series 3B	17.84575	May 3, 2021	September 2, 2021	September 27, 2021
Series 2B	17.14575	August 3, 2021	October 7, 2021	November 3, 2021
Series 3A	17.17825	August 3, 2021	November 29, 2021	December 27, 2021
Series 3B	17.84575	August 3, 2021	November 29, 2021	December 27, 2021
<b>2020</b>				
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 (P737), February 10, 2021 (P44), February 26, 2021 (P3), March 22, 2021 (P57), May 10, 2021 (P43), May 27, 2021 (P3), June 22, 2021 (P57), July 16, 2021 (P770), August 10, 2021 (P46), August 27, 2021 (P3), September 22, 2021 (P59).

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

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## 14. Investment in Shares of Stock of an Associate

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.

Below summarizes the derecognized accounts at the deconsolidation date:

Cash and cash equivalents	P3,677
Trade and other receivables - net	567
Investments in debt instruments	381
Other current assets	91
Deferred tax assets - net	10
Trade and other payables	(733)
Capital stocks	(295)
Deposits for Future Subscription	(3,000)
Equity Reserves	(3)
<b>Total</b>	<b>P695</b>

Following are the condensed financial information of Petrogen as of and for the period ended January 31, 2021 and September 30, 2021

	January 31, 2021	September 30, 2021
<b>Percentage of ownership</b>	<b>100.00%</b>	<b>25.06%</b>
Current assets	P4,519	P5,750
Noncurrent assets	207	364
Current liabilities	(733)	(1,885)
<b>Net assets</b>	<b>P3,993</b>	<b>P4,229</b>
<b>Net income</b>	<b>P7</b>	<b>P240</b>
<b>Share in net assets</b>	<b>P3,993</b>	<b>P1,062</b>
<b>Carrying amount of investment in shares of stock of an associate</b>	<b>P -</b>	<b>P1,062</b>

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## 15. 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 62% of crude and condensate volume processed are from EMEPMI with balance of around 38% from spot purchases

Outstanding liabilities of the Group for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated interim statements of financial position as of September 30, 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 September 30, 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 P31,831 and P14,847 as of September 30, 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 September 30, 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.

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### **16. Events After the Reporting Period**

- a. On October 12, 2021, the Parent Company issued P18 billion retail bonds divided into Series E due in 2025 (P9.0 billion) and Series F due in 2027 (P9.0 billion) with interest rates of 3.4408% p.a. and 4.3368% p.a., respectively. The Bonds are listed on the Philippine Dealing & Exchange Corp.
- b. On October 27, 2021, the Parent Company fully paid its P13 billion Series 2A retail bonds issued on October 27, 2016.
- c. On November 3, 2021, the Parent Company redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 7, 2021. The redemption was approved by the Parent Company's BOD on March 9, 2021.
- d. On November 9, 2021, the BOD of the Parent Company approved the declaration of cash dividends for Series 3 preferred shareholders with the following details:

Type	Per Share	Date of Record	Date of Payment
Series 3A	17.17825	March 3, 2022	March 25, 2022
Series 3B	17.84575	March 3, 2022	March 25, 2022
Series 3A	17.17825	June 3, 2022	June 27, 2022
Series 3B	17.84575	June 3, 2022	June 27, 2022

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### **17. 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 September 30, 2021.
- d. The effect of COVID-19 in the performance of the Group for YTD 3Q 2021 is discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.
- e. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

#### Gross Domestic Product (GDP)

The PH economy posted a growth of 7.1% in the third quarter of 2021. Although slower than the 12.0% second quarter expansion, the recorded growth is a rebound from last year's 11.6% slump amid government's reimplementations of stricter lockdowns due to the spread of the COVID-19 Delta variant during the third quarter.

<u>Economic growth (in percentage)</u>	<u>3Q 2021</u>	<u>3Q 2020</u>
GDP	7.1	(11.6)
<i>By Industry</i>		
Agriculture	(1.7)	1.2
Industry	7.9	(17.6)
Services	8.2	(10.6)
<i>By Expenditure</i>		
Household Consumption	7.1	(9.2)
Government Consumption	13.6	5.2
Capital Formation	22.0	(39.5)
Exports	9.0	(15.1)
Imports	13.2	(20.7)

Growth on the demand side was mainly driven by Capital Formation with its double-digit growth at 22% which is also a rebound from -39.5% percent in the same period last year. Growth is still due to resumption of construction projects with increased vaccinations vs. Covid-19. Household consumption also recorded a reversal of 7.1% from last year's 9.2% contraction as the country transitioned to more localized lockdowns and increased freedoms for the rising proportion of fully vaccinated individuals. Both imports and exports of goods and services also had their expansion with improved merchandise trade due to a global recovery. Government Consumption accelerated with the continuous implementation of recovery programs.

On the supply side, both Industry and Services posted a positive growth from previous year with the continued operations of essential industries and public transportation despite pockets of lockdowns while Agriculture still recorded a contraction due to the tropical cyclones that wiped out farmers' produce.

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

91-day T-Bill rates averaged 1.1% in in the first nine months of 2021, lower compared to 2.3% 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% and expected to be maintained for the rest of the year to support the country's economic recovery.

#### Peso-Dollar Exchange Rate

The peso averaged P48.9/\$ as of Ytd-September, a 2.4% appreciation from P50.1/\$ in the same period last year. BSP's all-time low interest rates, balance-of-payments surplus, and rising international reserves led to the Peso's appreciation vs. the US dollar.

#### Inflation

The rate of increase in prices of commodities and services accelerated to 4.5% as of Ytd-September, from 2.5% in the same period last year. Continuous increase in electricity rates, prices of key food items, and global crude prices with a weaker peso further push up the inflation.

#### Industry Oil Demand

Oil demand in the country grew by 10.9% to 70,505 MB in 1H 2021 from 63,563 MB in 1H 2020. Growth in demand was mainly due to the transition to less stringent travel restrictions implemented nationwide during the first half of 2021 resulting to increased economic activity.

#### Oil Market

Year-on-year prices of Dubai grew by 59.9% to \$66.2/bbl as of Ytd-September 2021 vs. \$41.4/bbl in the same period last year, with continued managed production increases by OPEC+ amid higher



crude demand. Ytd-September 2021 Gasoline and Kero-Jet cracks strengthened by 110.9% to \$9.6/bbl and 52.7% to \$3.9/bbl respectively while Diesel crack declined by 21.6% to \$6.4/bbl. Improvement in gasoline and kero-jet cracks is due to increased mobility with the wider vaccine roll-out. Diesel cracks remained weak due to relatively low demand and ample stocks.

#### 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”)* and House Bill No. 10483. 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 0.06884 per liter.

House Bill No. 10483 was filed with the House Committee Ways and Means on November 3, 2021. The bill seeks to amend the TRAIN Law by exempting diesel and kerosene from excise taxes, and the reduction of gasoline excise taxes (from Php10 to Php 7) for the period December 2021 – June 2022.

*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.

*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.

*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.

*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.

*LPG Industry Regulation Act (Republic Act No. 11592).* This law was signed on October 14, 2021 and published on October 18, 2021. The law aims to strengthen government's supervision, and monitoring of the LPG industry in order to ensure compliance with safety, environmental and product quality standards. The law also provides for the establishment of a central database of the LPG industry participants, as well as the "Cylinder Exchange and Swapping Program" and "LPG Cylinder Improvement Program." The Implementing Rules and Regulations of the law ("IRR") should be drafted and implemented within 60 days upon effectivity of the law. Once the IRR take effect, they will supersede Department Circular 2014-01-0001 (also known as the LPG Rules of 2014).

*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.

*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.

*Department Circular 2021-06-0014.* The DOE issued "Revised Circular for the Accreditation and Submission of Notices and Reports of the Philippine Downstream Oil Industry Pursuant to the Biofuels Act" on July 2, 2021 requiring oil companies to submit notices, accreditation and reportorial requirements using revised templates in relation to the utilization of biofuels. The new circular provides for more stringent penalties and additional monthly and quarterly reports for DOE to monitor compliance with regard to the utilization of biofuels, including compliance to local monthly allocation (LMA) for ethanol.

*Department Circular 2021-09-0029.* The "Revised Guidelines on Notices and Reportorial Requirements Pursuant to the Oil Deregulation Law" while signed last September, was published on November 5, 2021. Similar to DC 2021-06-0014, this circular requires submission of monthly and annual reports using revised templates for DOE to monitor importation and/or production of oil companies (and for Petron as a refiner). This also includes additional reportorial requirements for lubes and blending plants, with more stringent penalties for non-compliance.

*Department Circular 2021-07-0023.* DOE issued this circular on July 2, 2021 providing for a framework for the adoption and development of Electric Vehicles (“EVs”) and Electric Charging Stations (“EVCs”) in the Philippines. The circular provides that retail stations may be encouraged to install EVCs. While there is no current law on EVs and EVCs, a bill is already at the bicameral conference committee level in Congress.

**PETRON CORPORATION AND SUBSIDIARIES****RECEIVABLES**

As of September 30, 2021

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	<b>P24,875</b>
Accounts Receivable – Non-Trade	<b>9,194</b>
<b>Total Accounts Receivable - Net</b>	<b>P34,069</b>

**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P24,473
	31 – 60 days	112
	61 – 90 days	192
	Over 90 days	952
<b>Total</b>		<b>25,729</b>
Allowance for doubtful accounts		(854)
<b>Accounts Receivable – Trade</b>		<b>P24,875</b>

## Interim Financial Report as of September 30, 2021

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

#### Financial Performance

##### YTD September 2021 vs YTD September 2020

For the period ending September 2021, Petron Corporation registered a consolidated net income of **₱4.99 billion** reflecting its steady and on track recovery from the Company's performance for the same period last year (LY) of **₱ 12.61 billion** net loss.

Despite the continued quarantine restrictions in the country, albeit at varying levels, and stricter mobility measures in Malaysia, the Company was able to match its LY's consolidated sales volume. Meanwhile, the YTD September 2021 consolidated sales revenue rose year-on-year with the continued rally in prices. The sustained recovery in global demand as more economies, particularly in the west, opened-up alongside the consistent effort of oil producing countries to manage supply supported the escalation in oil prices. Further, the market remains optimistic as global vaccination efforts are further intensified amid resurgences in COVID-19 cases from new variants.

<b>(In Million Pesos)</b>	<b>2021</b>	<b>2020</b>	<b>Variance- Fav (Unfav)</b>	
			<b>Amt</b>	<b>%</b>
<b>Sales</b>	<b>291,573</b>	<b>216,430</b>	<b>75,143</b>	<b>35</b>
<b>Cost of Goods Sold</b>	<b>268,767</b>	<b>217,238</b>	<b>(51,529)</b>	<b>(24)</b>
<b>Gross Profit (Loss)</b>	<b>22,806</b>	<b>(808)</b>	<b>23,614</b>	<b>(high)</b>
<b>Selling and Administrative Expenses (net of Other Operating Income)</b>	<b>9,395</b>	<b>9,556</b>	<b>161</b>	<b>2</b>
<b>Non-operating Charges</b>	<b>7,291</b>	<b>7,544</b>	<b>253</b>	<b>3</b>
<b>Net Income (Loss)</b>	<b>4,985</b>	<b>(12,606)</b>	<b>17,591</b>	<b>(high)</b>
<b>EBITDA</b>	<b>20,563</b>	<b>(3,107)</b>	<b>23,670</b>	<b>(high)</b>
<b>Sales Volume (MB)</b>	<b>59,202</b>	<b>59,498</b>	<b>(296)</b>	<b>(0)</b>
<b>Earnings (Loss) per Share (₱)</b>	<b>0.15</b>	<b>(1.64)</b>	<b>1.79</b>	<b>(high)</b>
<b>Return on Sales (%)</b>	<b>1.71</b>	<b>(5.8)</b>	<b>7.6</b>	<b>(high)</b>

**Earnings before interest, taxes, depreciation and amortization** summed up to **₱ 20.56 billion** while **earnings per share** was at **₱ 0.15** as against loss of **₱ 1.64** per share in previous year.

The following are the major factors that affected the Company's performance for the three quarters this year compared with the same LY:

- ◆ **Consolidated Sales volume** at **59.20 million barrels (MMB)** almost equaled LY's 59.5 MMB. As the Company strives to regain volume, domestic sales in the Philippines is almost flat as the improvements in Retail and Supply segments were negated by the reduced Commercial volume which still suffered from the slump in the aviation industry. Total Petrochemical sales and PSTPL trading volume went up while volumes in Malaysia declined due to the implementation of stricter movement control orders.
- ◆ **Net Sales** increased by 35% to **₱ 291.57 billion** from **₱ 216.43 billion** LY as regional reference MOPS prices continue to rise.

**Cost of Goods Sold (CGS)** likewise surged by 24% to **₱ 268.77 billion** from **₱ 217.29 billion** mainly due to higher cost per liter. Benchmark crude Dubai breached the \$75/bbl-mark by the end of the quarter and averaged US\$66.2/bbl for the period, up by 60% from US\$41.40/bbl average in the same

period last year. **Gross profit** climbed to **₱ 22.81 billion** as the increase in selling price exceeded the rise in cost.

- ◆ **Selling and Administrative Expenses, net of Other Operating Income (OPEX)** declined by 2% to **₱ 9.40 billion** owing to sustained efforts to manage costs.
- ◆ **Net Financing Costs and Other Charges** decreased by 3% to **₱ 7.29 billion** largely due to decrease in borrowing level and interest rates.
- ◆ **Income tax expense** amounted to **₱ 1.14 billion** this year in contrast to **₱ 5.30 billion** tax benefit as the Company returned to taxable income from huge loss LY.

#### YTD September 2020 vs YTD September 2019

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

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

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

Highlights for the first three quarters performance were the following:

- ◆ **Consolidated Sales volume** registered improvement in the third quarter following the gradual reopening of the economy. Domestic sales volume in Malaysia nearly matched the pre-pandemic level while Philippines' retail volume grew by 33% versus the second quarter. Meanwhile, on a year-to-date basis, sales volume contracted by 24% to **59.50 million barrels (MMB)** from last year's 78.68 MMB due to reduced economic activities and travel restrictions amidst worldwide lockdowns particularly during the first four months of the pandemic.
- ◆ **Net Sales** decreased by 43% from **₱ 381.66 billion** to **₱ 216.43 billion** with the drop in volume, coupled by the impact of lower average selling price. Drop in selling price was due to lower reference MOPS

prices in the region, partly offset by the increase in excise tax per liter following the implementation of the last tranche of the TRAIN law.

- ◆ **Cost of Goods Sold (CGS)** declined by 39% to **₱ 217.24 billion** from LY's ₱ 356.67 billion also due to lower sales volume compounded by the decrease in average cost per liter as price of benchmark crude Dubai dropped by 35% from US\$64/bbl to US\$41/bbl. From a gross profit of ₱ 24.98 billion in 2019, the Company reported a **gross loss of ₱ 808 million** largely due to the significant inventory losses, reduced product cracks and lower volume, slightly offset by better marketing margins.
- ◆ **Selling and Administrative Expenses (OPEX)** were reduced by 14% from ₱ 11.11 billion to **₱ 9.56 billion** as cost reduction measures were implemented across all divisions. Savings were mostly on outsourced services, employee costs, LPG cylinder purchases, promotion and advertising expenses, as well as service station and depot maintenance and repairs.
- ◆ **Net Financing Costs and Other Charges** decreased by 18% to **₱ 7.54 billion** from ₱ 9.15 billion LY largely due to lower interest on loans brought about by the decrease in borrowing rates, lower bank charges and the marked-to-market gain on commodity hedges versus loss LY.
- ◆ **Income tax benefit** amounted to **₱ 5.3 billion** owing to the loss before tax position, a swing from the ₱ 1.10 billion expense in previous year.

## Financial Position

### September 2021 vs December 2020

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end-September 2021 totaled **₱ 383.56 billion**, 10% or ₱ 33.84 billion higher than end-2020 balance of ₱ 349.73 billion. The increase in total assets largely came from higher inventories, trade and other receivables as well as cash and cash equivalents.

The 27% increase in **Cash and cash equivalents** of P7.36 to **₱ 34.41 billion** came from the remaining funds generated from operations, issuance of perpetual securities and availment of loans, after deducting cash used for dividend and distribution payments, capital projects and increase in working capital requirements during the three quarters of 2021.

**Financial assets at fair value** went up to **₱ 782 million** from ₱ 603 million due to higher gains on outstanding commodity and currency hedges.

**Investments in debt instruments** (current and non-current) stood **nil** from the ₱ 381 million level as of end-2020 with the deconsolidation of Petrogen Insurance Corporation (PIC) from the Petron group.

**Trade and other receivables - net** rose by 25% to **₱ 34.07 billion** attributable to the increase in trade receivables owing to higher prices, further elevated by the increase in government receivables of Petron Malaysia, partly countered by the decrease in government receivables of the Parent Company.

**Inventories** increased by ₱ 17.88 billion to **₱ 62.80 billion** mainly from higher prices versus the end-2020 level.

The decrease in ownership interest of the Parent Company in Petrogen from 100% to 25.06% resulted in the deconsolidation of the subsidiary from the group and corresponding recognition of **Investment in shares of stock of an associate** amounting to **₱ 1.06 billion**.

**Right of Use** asset declined by 6% or ₱ 343 million to **₱ 5.70 billion** due to depreciation for the period.

**Deferred tax assets – net** went down to **₱ 1.83 billion** from ₱ 2.19 billion brought about the impact of CREATE law, utilization of previous year's Net Operating Loss Carry-over and temporary differences arising



from the accelerated method of depreciation for tax purposes, partly offset by the additional deferred tax with the recognition of minimum corporate income tax and lower unrealized foreign exchange gains.

**Other noncurrent assets – net** declined to **₱ 1.62 billion** from ₱ 2.09 billion mostly from the amortization of deferred input tax.

**Short-term loans** increased to **₱ 98.10 billion** from end-December 2020 level of ₱ 77.70 billion from borrowings to support the increase in working capital requirements.

**Liabilities for crude oil and petroleum products** stood higher at **₱ 27.77 billion** compared to end-2020 level of ₱ 22.32 billion owing primarily to the continuous increase in prices during the period.

**Income tax payable** grew more than double from ₱ 162 million to **₱ 352 million** as tax liabilities of Petron Malaysia increased.

**Long-term debt** (including current portion) declined to **₱ 99.67 billion** from end-2020 balance of ₱ 119.45 billion as a result of the Parent Company's prepayment and amortization of existing peso and dollar loans.

**Retirement benefits liability -net** decreased by 7% to **₱ 3.44 billion** owing to the contributions made to the retirement fund.

**Deferred tax liabilities – net** went up to **₱ 3.67 billion** from ₱ 3.08 billion due to Petron Malaysia's temporary differences with respect to depreciation and capital allowance of qualifying assets.

**Other noncurrent liabilities** stood at **₱ 1.71 billion**, 10% lower than end-2020 level due to lower liabilities from cash flow hedges.

**Capital Securities** moved up by 72% to **₱ 62.81 billion** traced to the issuance of the US\$550 million Senior Perpetual Capital Securities.

**Retained Earnings** increased by 5% to **₱ 31.19 billion** attributed to the net income realized during the period partly offset by the payment of cash dividends and distributions.

**Non-controlling interests** rose by 11% to **₱ 7.10 billion** mainly from its proportionate share in net income during the period.

### **September 30, 2020 vs December 31, 2019**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Cash Flows

### 3Q 2021 vs 3Q 2020

As of end-September 2021, cash and cash equivalents stood at **₱ 34.41 billion**. Cash generated from operations and proceeds from the issuance of Capital securities were used to settle maturing loans, finance the increase in working capital requirements, and pay off taxes, dividends and distributions. During the first three quarters, the Company also spent for various capital projects at the refinery, service stations and terminals.

In Million Pesos	September 30, 2021	September 30, 2020	Change
Operating outflows	(6,108)	(1,678)	(4,430)
Investing outflows	(7,049)	(6,471)	(578)
Financing inflows	19,139	10,007	9,132

### 3Q 2020 vs 3Q 2019

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

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

Ratio	30-Sep-21	31-Dec-20
Current Ratio	<b>1.0</b>	0.9
Total Interest-bearing Debt to Equity Ratio	<b>1.7</b>	2.3
Return on Equity (%)	<b>6.1</b>	(12.8)
Interest Rate Coverage Ratio	<b>1.8</b>	(0.4)
Assets to Equity Ratio	<b>3.3</b>	4.1

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

This ratio is a cursory 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

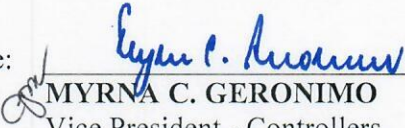
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PETRON CORPORATION**

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

Date: November 15, 2021

Principal Financial/Accounting Officer/Controller

Signature and Title:   
\_\_\_\_\_  
**MYRNA C. GERONIMO**  
Vice President - Controllers

Date: November 15, 2021

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

<b>Financial Ratios</b>	<b>Formula</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>0.96</b>	0.89
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	<b>0.40</b>	0.37
<b>Solvency</b>			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	<b>1.72</b>	2.29
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.34</b>	4.06
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>1.84</b>	-0.43
<b>Profitability</b>			
f) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	<b>6.14%</b>	-12.78%
g) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	<b>1.68%</b>	-3.07%
<b>Operating Efficiency</b>			
h) Volume Growth	$\left( \frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	<b>0.59%</b>	-26.53%
i) Sales Growth	$\left( \frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	<b>34.72%</b>	-44.39%
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	<b>4.60%</b>	-1.62%

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

<sup>b</sup> excludes lease liabilities