

# 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. JHOANNA JASMINE M. JAVIER-ELACIO  
Contact Person

8-884-9200  
Company Telephone Number

1 2 - 3 1  
Month Day  
Fiscal Year

SEC Form 17-Q 2nd Quarter 2023  
FORM TYPE

0 5 1 6  
Month Day  
Annual Meeting  
(For 2023)

Permit to offer securities  
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A  
Amended Articles Number/Section

144,258 (as of June 30, 2023)  
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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2023.
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines  
Province, Country or other  
jurisdiction of incorporation or  
organization
6.  (SEC Use Only)  
Industry Classification Code:
7. Mandaluyong City, 40 San Miguel Avenue, 1550  
Address of principal office Postal Code
8. (632) 8-884-9200  
Registrant's telephone number, including area code
9. N/A  
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding and Amount of Debt Outstanding (As of <u>June 30, 2023</u> )
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock Series 3A</u>	<u>13,403,000 Shares</u>
<u>Preferred Stock Series 3B</u>	<u>6,597,000 Shares</u>
<u>Series B Bonds Due 2023</u>	<u>P7,000 Million</u>
<u>Series C Bonds Due 2024</u>	<u>P13,200 Million</u>
<u>Series D Bonds Due 2025</u>	<u>P6,800 Million</u>
<u>Series E Bonds Due 2025</u>	<u>P9,000 Million</u>
<u>Series F Bonds Due 2027</u>	<u>P9,000 Million</u>
<u>Total Debt</u>	<u>P216,613 Million</u>

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

Yes  No

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

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

12. Indicate by check mark whether the Registrant:

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

Yes  No

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

Yes  No


<b>PART I - FINANCIAL INFORMATION</b>		
Item 1	Petron Corporation & Subsidiaries Financial Statements	
	Consolidated Interim Statements of Financial Position	6-7
	Consolidated Interim Statements of Income	8
	Consolidated Interim Statements of Comprehensive Income	9
	Consolidated Interim Statements of Changes in Equity	10-11
	Consolidated Interim Statements of Cash Flows	12-13
	Selected Notes to the Consolidated Interim Financial Statements	14-56
	Details of Accounts Receivables	57
Item 2	Management's Discussion and Analysis of Financial Position and Financial Performance	58-68
<b>PART II - OTHER INFORMATION</b>		
	Other Information	69
	Financial Soundness Indicators	70
	Proceeds from Issuance of Series e and Series F Fixed Rate Bonds	71

**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:

  
\_\_\_\_\_  
**JOHANNA JASMINE M. JAVIER-ELACIO**  
AVP, General Counsel, Corporate Secretary  
and Compliance Officer

Date: August 14, 2023

Principal Financial/Accounting Officer/Controller

Signature and Title:

  
\_\_\_\_\_  
**MYRNA C. GERONIMO**  
Vice President - Controllers

Date: August 14, 2023

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



	<i>Note</i>	<b>Unaudited June 30 2023</b>	Audited December 31 2022
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8, 9	<b>P39,816</b>	P37,183
Financial assets at fair value	8, 9	<b>1,262</b>	1,753
Trade and other receivables - net	6, 8, 9	<b>68,651</b>	81,979
Inventories - net		<b>78,144</b>	85,347
Other current assets	6	<b>39,775</b>	37,025
<b>Total Current Assets</b>		<b>227,648</b>	243,287
<b>Noncurrent Assets</b>			
Investment in shares of stock of an associate and joint venture		<b>1,141</b>	1,075
Property, plant and equipment - net	4, 5	<b>167,755</b>	170,153
Right-of-use assets - net		<b>5,053</b>	5,398
Investment property - net		<b>26,727</b>	28,437
Deferred tax assets - net		<b>1,069</b>	1,812
Goodwill - net		<b>7,947</b>	8,509
Other noncurrent assets - net	8, 9	<b>2,055</b>	1,400
<b>Total Noncurrent Assets</b>		<b>211,747</b>	216,784
		<b>P439,395</b>	P460,071
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	6, 7, 8, 9	<b>P112,043</b>	P137,886
Liabilities for crude oil and petroleum products	8, 9	<b>58,012</b>	51,067
Trade and other payables	6, 8, 9	<b>26,118</b>	22,896
Lease liabilities - current portion	8, 9	<b>1,398</b>	1,380
Derivative liabilities	8, 9	<b>788</b>	723
Income tax payable		<b>295</b>	204
Current portion of long-term debt - net	8, 9	<b>27,064</b>	13,399
<b>Total Current Liabilities</b>		<b>225,718</b>	227,555

*Forward*

	<i>Note</i>	<b>Unaudited June 30 2023</b>	Audited December 31 2022
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	8, 9	<b>P77,506</b>	P93,662
Retirement benefits liability - net		<b>3,295</b>	3,261
Deferred tax liabilities - net		<b>3,916</b>	3,601
Lease liabilities - net of current portion	8, 9	<b>13,114</b>	13,714
Asset retirement obligation		<b>3,640</b>	3,527
Other noncurrent liabilities	8, 9	<b>1,132</b>	1,201
<b>Total Noncurrent Liabilities</b>		<b>102,603</b>	118,966
<b>Total Liabilities</b>		<b>328,321</b>	346,521
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		<b>9,485</b>	9,485
Additional paid-in capital		<b>37,500</b>	37,500
Capital securities		<b>61,293</b>	62,712
Retained earnings		<b>32,355</b>	30,357
Equity reserves		<b>(19,674)</b>	(16,887)
Treasury stock		<b>(18,000)</b>	(18,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>102,959</b>	105,167
<b>Non-controlling Interests</b>		<b>8,115</b>	8,383
<b>Total Equity</b>		<b>111,074</b>	113,550
		<b>P439,395</b>	P460,071

*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)

	Note	April to June		January to June	
		2023	2022	2023	2022
<b>SALES</b>	4	<b>P178,284</b>	P226,186	<b>P367,037</b>	P398,517
<b>COST OF GOODS SOLD</b>		<b>166,725</b>	214,970	<b>343,443</b>	375,582
<b>GROSS PROFIT</b>		<b>11,559</b>	11,216	<b>23,594</b>	22,935
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>		<b>(4,382)</b>	(4,015)	<b>(8,393)</b>	(7,654)
<b>OTHER OPERATING INCOME</b>		<b>416</b>	384	<b>810</b>	735
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	4	<b>(4,458)</b>	(2,776)	<b>(8,787)</b>	(5,244)
<b>INTEREST INCOME</b>	4	<b>375</b>	173	<b>697</b>	319
<b>SHARE IN NET INCOME OF AN ASSOCIATE AND JOINT VENTURE</b>		<b>27</b>	25	<b>48</b>	32
<b>OTHER INCOME (EXPENSES) - Net</b>		<b>27</b>	204	<b>44</b>	(1,101)
		<b>(7,995)</b>	(6,005)	<b>(15,581)</b>	(12,913)
<b>INCOME BEFORE INCOME TAX</b>		<b>3,564</b>	5,211	<b>8,013</b>	10,022
<b>INCOME TAX EXPENSE</b>	4	<b>821</b>	1,103	<b>1,871</b>	2,316
<b>NET INCOME</b>		<b>P2,743</b>	P4,108	<b>P6,142</b>	P7,706
<b>Attributable to:</b>					
Equity holders of the Parent Company		<b>P2,610</b>	P3,513	<b>P5,648</b>	P6,761
Non-controlling interests		<b>133</b>	595	<b>494</b>	945
		<b>P2,743</b>	P4,108	<b>P6,142</b>	P7,706
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	11	<b>P 0.10</b>	P0.24	<b>P0.32</b>	P0.49

Certified by:

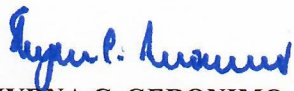

  
**MYRNA C. GERONIMO**  
Vice President - Controllers 



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

	April to June		January to June	
	2023	2022	2023	2022
<b>NET INCOME</b>	<b>P2,743</b>	P4,108	<b>P6,142</b>	P7,706
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Net income (loss) on cash flow hedges	(51)	(41)	(68)	16
Exchange differences on translation of foreign operations	(1,899)	1,082	(3,231)	1,521
Share in other comprehensive income (loss) of an associate and joint venture	(3)	-	10	-
Income tax benefit (expense)	14	11	18	(4)
	<b>(1,939)</b>	1,052	<b>(3,271)</b>	1,533
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>	<b>(1,939)</b>	1,052	<b>(3,271)</b>	1,533
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax</b>	<b>P804</b>	5,160	<b>P2,871</b>	P9,239
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P1,020</b>	P4,445	<b>P2,927</b>	P8,122
Non-controlling interests	(216)	715	(56)	1,117
	<b>P804</b>	P5,160	<b>P2,871</b>	P9,239

Certified by:

  
**MYRNA C. GERONIMO**  
Vice President – Controllers 

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



	Equity Attributable to Equity Holders of the Parent Company											
	Note	Additional		Retained Earnings			Equity Reserves			Total	Non-controlling Interests	Total Equity
		Capital Stock	Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
<b>As of January 1, 2023 (Audited)</b>		P9,485	P37,500	P62,712	P7,003	P23,354	(P6,437)	(P10,450)	(P18,000)	P105,167	P8,383	P113,550
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	(50)	-	(50)	-	(50)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(2,681)	-	(2,681)	(550)	(3,231)
Share in other comprehensive income of an associate and joint venture		-	-	-	-	-	-	10	-	10	-	10
Other comprehensive loss for the period		-	-	-	-	-	-	(2,721)	-	(2,721)	(550)	(3,271)
Net income for the period		-	-	-	-	5,648	-	-	-	5,648	494	6,142
Total comprehensive income (loss) for the period		-	-	-	-	5,648	-	(2,721)	-	2,927	56	2,871
Cash dividends	12	-	-	-	-	(1,286)	-	-	-	(1,286)	(212)	(1,498)
Distributions paid	12	-	-	-	-	(2,301)	-	-	-	(2,301)	-	(2,301)
Redemption of capital securities		-	-	(1,419)	-	-	-	(66)	-	(1,485)	-	(1,485)
Share issuance cost of a subsidiary		-	-	-	-	(63)	-	-	-	(63)	-	(63)
Reversal of retained earnings appropriation		-	-	-	(7,000)	7,000	-	-	-	-	-	-
Transactions with owners		-	-	(1,419)	-	3,350	-	(66)	-	(5,135)	(212)	(5,347)
<b>As of June 30, 2023 (Unaudited)</b>		P9,485	P37,500	P61,293	P 3	P32,352	(P6,437)	(P13,237)	(P18,000)	P102,959	P8,115	111,074

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Retained Earnings					Equity Reserves				Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total		
As of January 1, 2022 (Audited)		P9,485	P37,500	P62,712	P7,003	P23,229	(P5,962)	(P12,379)	(P18,000)	P103,588	P7,325	P110,913
Net income on cash flow hedges - net of tax		-	-	-	-	-	-	12	-	12	-	12
Exchange differences on translation of foreign operations		-	-	-	-	-	-	1,349	-	1,349	172	1,521
Other comprehensive income for the period		-	-	-	-	-	-	1,361	-	1,361	172	1,533
Net income for the period		-	-	-	-	6,761	-	-	-	6,761	945	7,706
Total comprehensive income for the period		-	-	-	-	6,761	-	1,361	-	8,122	1,117	9,239
Cash dividends		-	-	-	-	-	-	-	-	-	(179)	(179)
Distributions paid	12	-	-	-	-	(2,152)	-	-	-	(2,152)	-	(2,152)
Transactions with owners		-	-	-	-	(2,152)	-	-	-	(2,152)	-	(2,331)
As of June 30, 2022 (Unaudited)		P9,485	P37,500	P62,712	P7,003	P27,838	(P5,962)	(P11,018)	(P18,000)	P109,558	P8,263	P117,821

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 Six Months Ended June 30</b>	
	<i>Note</i>	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>P8,013</b>	P10,022
Adjustments for:			
Share in net income of an associate and joint venture		<b>(48)</b>	(32)
Depreciation and amortization		<b>5,789</b>	5,373
Interest expense and other financing charges	4	<b>8,787</b>	5,244
Retirement benefits costs		<b>158</b>	5
Interest income	4	<b>(698)</b>	(319)
Unrealized foreign exchange losses (gains) - net		<b>(532)</b>	1,185
Other losses (gains) – net		<b>(692)</b>	1,768
Operating income before working capital changes		<b>20,777</b>	23,246
Changes in noncash assets, certain current liabilities and others		<b>28,448</b>	(37,455)
Cash generated from (used in) operations		<b>49,225</b>	(14,209)
Contributions to retirement fund		<b>(100)</b>	(600)
Interest paid		<b>(8,600)</b>	(4,941)
Income taxes paid		<b>(385)</b>	(187)
Interest received		<b>704</b>	335
Net cash flows provided by (used in) operating activities		<b>40,844</b>	(19,602)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	5	<b>(2,620)</b>	(2,981)
Proceeds from sale of property and equipment		<b>4</b>	4
Additions to investment property		<b>(173)</b>	(314)
Increase in other noncurrent assets		<b>(9)</b>	(36)
Net cash flows used in investing activities		<b>(2,798)</b>	(3,327)

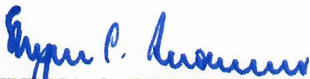

*Forward*



		<b>For the Six Months Ended June 30</b>	
	<i>Note</i>	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans	7	<b>P109,307</b>	P181,714
Payments of:			
Loans	7	<b>(137,026)</b>	(146,664)
Lease liabilities		<b>(1,451)</b>	(1,383)
Cash dividends and distributions	12	<b>(4,146)</b>	(3,020)
Redemption of capital securities		<b>(1,485)</b>	-
Net cash flows provided by (used in) financing activities		<b>(34,801)</b>	30,647
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		<b>(612)</b>	2,649
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>2,633</b>	10,367
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			
		<b>37,183</b>	36,406
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
		<b>P39,816</b>	P46,773

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

Certified by:

  
**MYRNA C. GERONIMO**  
 Vice President - Controllers 

## **PETRON CORPORATION AND SUBSIDIARIES**

### **SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

---

#### **1. Reporting Entity**

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company’s corporate term to December 22, 2066. Under its Articles of Incorporation (AOI), the Parent Company’s has a corporate life of 50 years or for such longer period as may hereafter be authorized by the laws of the Philippines. Pursuant to the Revised Corporation Code of the Philippines, which took effect in February 2019, the Parent Company shall have a perpetual existence because the Parent Company did not elect to retain its specific corporate term under its AOI.

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

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

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

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

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

---

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

The interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting and do not include all the information required in the annual consolidated financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements as at December 31, 2022.

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on August 1, 2023.

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 adopted in preparing the interim consolidated financial statements of the Group are consistent with 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 and Sustainability Reporting Standards Council (FSRSC) approved the adoption of several amended standards as part of PFRS.

### *Amended Standards Adopted in 2023*

The Group has adopted the following amendments to PFRS effective January 1, 2023 and accordingly, changed its accounting policies in the following areas:

- 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 accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both 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 in accounting estimates. The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.
- Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements*, 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 include guidance and additional examples on the application of materiality to accounting policy disclosures.
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The adoption of the amended standards did not have a material effect on the interim consolidated financial statements.

### *Amended Standards Not Yet Adopted*

A number of amended standards are effective for annual periods beginning after January 1, 2023 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the interim consolidated financial statements.

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

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16, *Leases*). The amendments confirm the following:
  - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale and leaseback transaction.



- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right-of-use asset it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

The amendments are effective for annual reporting periods beginning or after January 1, 2024, with earlier application permitted. Under PAS 8, the amendments apply retrospectively to sale and leaseback transactions entered into or after the date of initial adoption of PFRS 16.

- Classification of Liabilities as Current or Noncurrent - 2020 Amendments and Noncurrent Liabilities with Covenants - 2022 Amendments (Amendments to PAS 1). 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 require that the right must have substance and exist at the reporting date;
  - clarified that only covenants with which the entity must comply on or before the reporting date affect the classification of a liability as current or noncurrent and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
  - provided additional disclosure requirements for noncurrent liabilities subject to conditions within 12 months after the reporting period to enable the assessment of the risk that the liability could become repayable within 12 months; and
  - clarified that settlement of a liability includes transferring an entity'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, 2024, with early application permitted.

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

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

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

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

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB). 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9, *Financial Instruments*, will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 on or before the date of initial application of PFRS 17.

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

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

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

---

### 3. Use of Judgments and Estimates

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

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, 2022.

---

#### 4. Segment Information

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

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

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country and in Malaysia.
- b. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- c. Sales on wholesale or retail and operation of service stations, retail outlets, convenience stores and the like.
- d. Export sales of various petroleum and non-fuel products to other countries such as China, Indonesia, India, Taiwan, Singapore, South Korea, Vietnam, Malaysia, and Japan.
- e. 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 June 30, 2023, December 31, 2022 and June 30, 2022:

	Petroleum	Leasing**	Marketing	Elimination/ Others**	Total
<b>June 30, 2023</b>					
Revenue:					
External sales	P365,613	P578	P557	P289	P367,037
Inter-segment sales	148,519	202	-	(148,721)	-
Operating income	15,839	112	14	46	16,011
Net income	6,694	64	17	(633)	6,142
Assets and liabilities:					
Segment assets*	487,057	9,846	642	(59,219)	438,326
Segment liabilities*	347,447	4,466	111	(27,619)	324,405
Other segment information:					
Property, plant and equipment - net	165,720	-	86	1,949	167,755
Depreciation and amortization	5,787	42	7	(47)	5,789
Interest expense	8,854	140	1	(208)	8,787
Interest income	702	112	7	(124)	697
Income tax expense	1,853	20	4	(6)	1,871

\*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	Leasing**	Marketing	Elimination/ Others**	Total
<b>December 31, 2022</b>					
Revenue:					
External sales	P854,712	P1,173	P1,221	P532	P857,638
Inter-segment sales	378,045	397	-	(378,442)	-
Operating income	18,898	242	42	31	19,213
Net income	8,513	137	42	(1,995)	6,697
Assets and liabilities:					
Segment assets*	517,953	9,959	644	(70,297)	458,259
Segment liabilities*	376,728	4,646	131	(38,585)	342,920
Other segment information:					
Property, plant and equipment	168,999	-	90	1,064	170,153
Depreciation and amortization	11,941	85	14	(164)	11,876
Interest expense	13,240	292	2	(440)	13,094
Interest income	965	229	5	(301)	898
Income tax expense	1,364	41	8	(9)	1,404

\*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	Leasing**	Marketing	Elimination/Ot hers**	Total
<b>June 30, 2022</b>					
Revenue:					
External sales	P397,025	P580	P683	P229	P398,517
Inter-segment sales	178,111	200	-	(178,311)	-
Operating income	15,900	120	8	(12)	16,016
Net income	7,993	64	11	(362)	7,706
Assets and liabilities:					
Segment assets*	541,827	9,888	698	(62,665)	489,748
Segment liabilities*	396,412	4,651	216	(31,055)	370,224
Other segment information:					
Property, plant and equipment	171,065	-	86	699	171,850
Depreciation and amortization	5,412	42	7	(88)	5,373
Interest expense	5,310	145	1	(212)	5,244
Interest income	362	112	1	(156)	319
Income tax expense	2,305	21	3	(13)	2,316

\*excluding deferred tax assets and liabilities

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

Inter-segment sales transactions amounted to P148,721, P378,442 and P178,311 for the periods ended June 30, 2023, December 31, 2022, and June 30, 2022, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended June 30, 2023, December 31, 2022, and June 30, 2022:

	<b>Retail</b>	<b>Lube</b>	<b>Gasul</b>	<b>Industrial</b>	<b>Others</b>	<b>Total</b>
<b>June 30, 2023</b>						
Revenue	<b>P172,510</b>	<b>P3,186</b>	<b>P16,688</b>	<b>P72,029</b>	<b>P101,200</b>	<b>P365,613</b>
Property, plant and equipment	<b>7,821</b>	<b>37</b>	<b>138</b>	<b>37</b>	<b>157,687</b>	<b>165,720</b>
Capital expenditures	<b>1,251</b>	<b>8</b>	<b>-</b>	<b>13</b>	<b>13,650</b>	<b>14,922</b>
December 31, 2022						
Revenue	P395,183	P6,403	P33,126	P156,307	P263,693	P854,712
Property, plant and equipment	7,920	27	149	23	160,880	168,999
Capital expenditures	1,170	4	-	1	12,360	13,535
June 30, 2022						
Revenue	P196,625	P3,204	P16,760	P69,570	P110,866	P397,025
Property, plant and equipment	8,273	27	170	11	162,584	171,065
Capital expenditures	1,315	4	-	1	14,308	15,628

### Geographical Segments

The following table presents segment assets of the Group as of June 30, 2023, December 31, 2022, and June 30, 2022:

	<b>June 30, 2023</b>	December 31, 2022	June 30, 2022
Local	<b>P334,875</b>	P349,713	P362,320
International	<b>103,451</b>	108,546	127,428
	<b>P438,326</b>	P458,259	P489,748

### 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 June 30, 2023, December 31, 2022, and June 30, 2022:

	<b>Petroleum</b>	<b>Leasing**</b>	<b>Marketing</b>	<b>Elimination/ Others**</b>	<b>Total</b>
<b>June 30, 2023</b>					
Local	<b>P192,456</b>	<b>P780</b>	<b>P557</b>	<b>(P578)</b>	<b>P193,215</b>
Export/international	<b>321,676</b>	<b>-</b>	<b>-</b>	<b>(147,854)</b>	<b>173,822</b>
December 31, 2022					
Local	P412,845	P1,570	P1,221	(P2,893)	P412,743
Export/international	819,912	-	-	(375,017)	444,895
June 30, 2022					
Local	P188,258	P780	P683	(P766)	P188,955
Export/international	386,878	-	-	(177,316)	209,562

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

## 5. Property, Plant and Equipment

The movements and balances as of and for the periods ended June 30, 2023 and December 31, 2022 follow:

	<b>Buildings and Improvements and Related Facilities</b>	<b>Refinery and Plant Equipment</b>	<b>Service Stations and Other Equipment</b>	<b>Computers, Office and Motor Equipment</b>	<b>Land and Leasehold Improvements</b>	<b>Construction In-progress</b>	<b>Total</b>
<b>Cost:</b>							
January 1, 2022	P24,563	P206,821	P20,087	P6,330	P4,324	P15,901	P278,026
Additions	127	2,150	265	498	-	2,893	5,933
Acquisition of subsidiary	-	-	-	261	5	-	266
Disposals/reclassifications	1,724	3,049	(206)	29	48	(5,200)	(556)
Reclassification to/from investment property	222	-	-	-	32	-	254
Currency translation adjustment	480	824	332	81	63	36	1,816
<b>December 31, 2022 (Audited)</b>	<b>27,116</b>	<b>212,844</b>	<b>20,478</b>	<b>7,199</b>	<b>4,472</b>	<b>13,630</b>	<b>285,739</b>
<b>Additions</b>	<b>33</b>	<b>142</b>	<b>108</b>	<b>1,022</b>	<b>12</b>	<b>1,690</b>	<b>3,007</b>
<b>Disposals/reclassifications</b>	<b>265</b>	<b>72</b>	<b>86</b>	<b>(8)</b>	<b>16</b>	<b>(258)</b>	<b>173</b>
<b>Currency translation adjustment</b>	<b>(144)</b>	<b>(1,726)</b>	<b>(692)</b>	<b>(170)</b>	<b>(132)</b>	<b>(53)</b>	<b>(2,917)</b>
<b>June 30, 2023 (Unaudited)</b>	<b>27,270</b>	<b>211,332</b>	<b>19,980</b>	<b>8,043</b>	<b>4,368</b>	<b>15,009</b>	<b>286,002</b>
<b>Accumulated Depreciation and Amortization:</b>							
January 1, 2022	14,794	70,171	14,752	5,434	1,273	-	106,424
Depreciation	966	6,543	1,108	238	93	-	8,948
Acquisition of subsidiary	-	-	-	45	2	-	47
Disposals/reclassifications	(46)	-	(518)	(50)	4	-	(610)
Reclassification to/from investment property	(106)	-	-	-	-	-	(106)
Currency translation adjustment	263	349	208	63	-	-	883
<b>December 31, 2022 (Audited)</b>	<b>15,871</b>	<b>77,063</b>	<b>15,550</b>	<b>5,730</b>	<b>1,372</b>	<b>-</b>	<b>115,586</b>
<b>Depreciation</b>	<b>488</b>	<b>3,195</b>	<b>493</b>	<b>135</b>	<b>84</b>	<b>-</b>	<b>4,395</b>
<b>Disposals/reclassifications</b>	<b>(250)</b>	<b>-</b>	<b>(64)</b>	<b>(14)</b>	<b>(7)</b>	<b>-</b>	<b>(335)</b>
<b>Currency translation adjustment</b>	<b>(87)</b>	<b>(750)</b>	<b>(429)</b>	<b>(133)</b>	<b>-</b>	<b>-</b>	<b>(1,399)</b>
<b>June 30, 2023 (Unaudited)</b>	<b>16,022</b>	<b>79,508</b>	<b>15,550</b>	<b>5,718</b>	<b>1,449</b>	<b>-</b>	<b>118,247</b>
<b>Carrying Amount:</b>							
December 31, 2022 (Audited)	P11,245	P135,781	P4,928	P1,469	P3,100	P13,630	P170,153
<b>June 30, 2023 (Unaudited)</b>	<b>P11,248</b>	<b>P131,824</b>	<b>P4,430</b>	<b>P2,325</b>	<b>P2,919</b>	<b>P15,009</b>	<b>P167,755</b>

Certain fully depreciated property, plant and equipment with aggregate costs of P31,645 and P29,924 as of June 30, 2023 and December 31, 2022, respectively, are still being used in the Group's operations.

### Capital Commitments

As of June 30, 2023 and December 31, 2022, the Group has outstanding commitments to acquire property, plant and equipment amounting to P6,852 and P6,061, respectively.

## 6. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries, in the normal course of business, purchase products and services from one another. Transactions with related parties are made at 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 June 30, 2023 and December 31, 2022 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>2023</b>	<b>P 22</b>	<b>P -</b>	<b>P893</b>	<b>P -</b>	On demand;	Unsecured;
		2022	58	-	894	-	interest bearing	no impairment
	<i>a</i>	<b>2023</b>	-	-	<b>22</b>	-	On demand;	Unsecured;
		2022	-	-	-	-	non-interest bearing	no impairment
Intermediate Parent	<i>b,e,f,h,i</i>	<b>2023</b>	<b>14</b>	<b>112</b>	<b>18</b>	<b>430</b>	On demand;	Unsecured;
		2022	20	207	16	453	non-interest bearing	no impairment
Under Common Control	<i>k</i>	<b>2023</b>	-	<b>84</b>	-	<b>3,312</b>	On demand;	Unsecured;
		2022	-	35	-	3,345	interest bearing	no impairment
	<i>b,c,d, h,i,j,k</i>	<b>2023</b>	<b>8,232</b>	<b>1,351</b>	<b>4,840</b>	<b>2,167</b>	On demand;	Unsecured;
		2022	16,473	4,625	6,278	2,178	non-interest bearing	no impairment
Associate	<i>b,h,i</i>	<b>2023</b>	<b>122</b>	<b>3</b>	<b>279</b>	<b>137</b>	On demand;	Unsecured
		2022	200	100	90	56	non-interest bearing	no impairment
Joint Venture	<i>c,g,h</i>	<b>2023</b>	-	-	<b>1</b>	-	On demand;	Unsecured
		2022	-	-	2	-	non-interest bearing	no impairment
Associates and Joint Ventures under Common Control	<i>l</i>	<b>2023</b>	-	<b>63</b>	-	<b>1,500</b>	Short-term:	Unsecured
		2022	-	101	-	2,865	interest bearing	no impairment
	<i>b,h,i,l</i>	<b>2023</b>	<b>159</b>	-	<b>77</b>	<b>2</b>	On demand;	Unsecured
		2022	365	-	71	19	non-interest bearing	no impairment
		<b>2023</b>	<b>P8,549</b>	<b>P1,613</b>	<b>P6,130</b>	<b>P7,548</b>		
		2022	P17,116	P5,068	P7,351	P8,916		

- 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 pertain 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 pertain to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture, associate and various SMC subsidiaries.
- d. The Parent Company entered into various lease agreements with San Miguel Properties, Inc. for its office space covering 6,747 square meters and certain parcels of land where service stations are located.
- e. The Parent Company has existing lease agreements with SMC covering certain parcels of land where service stations are located.
- f. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- g. 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.
- h. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.



- i. Amounts owed to related parties consist of trade and non-trade payables.
- j. 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.
- k. Amounts owed to entities under common control include interest bearing advances from San Miguel Insurance Company Ltd.
- l. Amounts owed to associate of entities under common control include interest bearing short-term loans payable to Bank of Commerce.

---

## 7. Loans and Borrowings

### Short-term Loans

The movements of short-term loans for the six months ended June 30, 2023 follow:

<b>Balance as of January 1, 2023</b>	<b>P137,886</b>
Loan availments	<b>101,663</b>
Loan repayments	<b>(127,181)</b>
Currency translation adjustment	<b>(325)</b>
<b>Balance as of June 30, 2023</b>	<b>P112,043</b>

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 4 to 91 days and annual interest ranging from 3.71% to 7.35% for the period ended June 30, 2023 and 5 to 181 days and annual interest ranging 1.28% to 6.88% December 31, 2022. 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 June 30, 2023 and December 31, 2022 the Group has complied with the provisions of its debt agreements.

---

## 8. Financial Risk Management Objectives and Policies

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

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into forward currency and option contracts to hedge its currency exposure on crude oil importations and long-term dollar loan respectively.

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

#### Risk Management Structure

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

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

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

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

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

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

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

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company, reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

#### Foreign Currency Risk

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

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

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

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

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

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

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

The Group is exposed to foreign currency risk of its short-term loans and US dollar-denominated sales and purchases. On the other hand, both foreign currency and interest rate risks arise in the Group's long-term debts. The Group determined that foreign currency risk is a separately identifiable and measurable

risk component eligible for designation since it is caused by fluctuations in US dollar to Philippine peso exchange rates and benchmark closing prices used to measure the fluctuations are available in the market.

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

	June 30, 2023		December 31, 2022	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	629	34,694	566	31,576
Trade and other receivables	559	30,868	676	37,701
Other assets	25	1,382	25	1,383
	<b>1,213</b>	<b>66,944</b>	1,267	70,660
<b>Liabilities</b>				
Short-term loans	137	7,543	279	15,531
Liabilities for crude oil and petroleum products	1,004	55,434	844	47,122
Long-term debt (including current maturities)	683	37,684	691	38,521
Other liabilities	117	6,476	311	17,344
	<b>1,941</b>	<b>107,137</b>	2,125	118,518
<b>Net foreign currency -denominated monetary liabilities</b>	<b>(728)</b>	<b>(40,193)</b>	(858)	(47,858)

The Group incurred net foreign currency exchange losses amounting to P199 and P2,888 for the periods ended June 30, 2023 and 2022, respectively, which were mainly countered by mark-to-market and hedging gains or losses (Note 9). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
<b>June 30, 2023</b>	<b>55.200</b>
December 31, 2022	55.755
June 30, 2022	54.975

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 June 30, 2023 and December 31, 2022:

<b>June 30, 2023</b>	<b>P1 Decrease in the US dollar Exchange Rate</b>		<b>P1 Increase in the US dollar Exchange Rate</b>	
	<b>Effect on</b>		<b>Effect on</b>	
	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>
Cash and cash equivalents	(P363)	(P538)	P363	P538
Trade and other receivables	(76)	(549)	76	549
Other assets	(14)	(21)	14	21
	<b>(453)</b>	<b>(1,108)</b>	<b>453</b>	<b>1,108</b>
Short-term loans	-	137	-	(137)
Liabilities for crude oil and petroleum products	344	1,264	(344)	(1,264)
Long-term debts (including current maturities)	683	512	(683)	(512)
Other liabilities	15	123	(15)	(123)
	<b>1,042</b>	<b>2,036</b>	<b>(1,042)</b>	<b>(2,036)</b>
	<b>P589</b>	<b>P928</b>	<b>(P589)</b>	<b>(P928)</b>

<b>December 31, 2022</b>	<b>P1 Decrease in the US dollar Exchange Rate</b>		<b>P1 Increase in the US dollar Exchange Rate</b>	
	<b>Effect on</b>		<b>Effect on</b>	
	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>
Cash and cash equivalents	(P422)	(P461)	P422	P461
Trade and other receivables	(146)	(706)	146	706
Other assets	(17)	(21)	17	21
	<b>(585)</b>	<b>(1,188)</b>	<b>585</b>	<b>1,188</b>
Short-term loans	-	279	-	(279)
Liabilities for crude oil and petroleum products	449	1,196	(449)	(1,196)
Long-term debts (including current maturities)	691	518	(691)	(518)
Other liabilities	51	309	(51)	(309)
	<b>1,191</b>	<b>2,302</b>	<b>(1,191)</b>	<b>(2,302)</b>
	<b>P606</b>	<b>P1,114</b>	<b>(P606)</b>	<b>(P1,114)</b>

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 P188 and P385 for the period ended June 30, 2023 and for the year ended December 31, 2022, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

### Interest Rate Risk Table

As of June 30, 2023 and December 31, 2022, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2023	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P26,343	P4,786	P21,800	P6,250	P9,000	P -	P68,179
Interest rate	4.5% - 7.8%	4.6% - 7.5%	3.4% - 8.1%	7.2% - 7.5%	4.3%		
<b>Floating Rate</b>							
US\$ denominated (expressed in Php)	-	10,062	10,062	10,062	5,031	-	35,217
Interest rate*		1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin		
JP¥ denominated (expressed in Php)	822	1,645	-	-	-	-	2,467
Interest rate*	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin					
	<b>P27,165</b>	<b>P16,493</b>	<b>P31,862</b>	<b>P16,312</b>	<b>P14,031</b>	<b>P -</b>	<b>P105,863</b>

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

December 31, 2022	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P11,642	P19,057	P22,425	P3,000	P13,752	P -	P69,876
Interest rate	4.5% - 7.5%	4.6% - 7.8%	3.4% - 8.1%	7.2% - 7.5%	4.3% - 7.5%	-	-
<b>Floating Rate</b>							
US\$ denominated (expressed in Php)	-	10,290	7,885	7,885	7,885	-	33,945
Interest rate*		1, 3, 6 mos. Libor/SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin		
JP¥ denominated (expressed in Php)	1,830	1,830	915	-	-	-	4,575
Interest rate*	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin				
	<b>P13,472</b>	<b>P31,177</b>	<b>P31,225</b>	<b>P10,885</b>	<b>P21,637</b>	<b>P -</b>	<b>P108,396</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:

	<b>June 30, 2023</b>	December 31, 2022
Cash in banks and cash equivalents	<b>P38,745</b>	P35,819
Derivative assets	<b>1,262</b>	1,438
Trade and other receivables - net	<b>68,651</b>	81,979
Noncurrent deposits	<b>122</b>	127
	<b>P108,780</b>	P119,363

*Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits*

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

*Investments in Debt Instruments*

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

*Trade and Other Receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 4.

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

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

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

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

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P5,574 and P5,416 as of June 30, 2023 and December 31, 2022, 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.

June 30, 2023						
Financial Assets at Amortized Cost				Financial Assets at Fair Value Through Profit or Loss (FVPL)	Financial Assets at FVOCI	Total
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired				
Cash in banks and cash equivalents	P38,745	P -	P -	P -	P -	P38,745
Trade and other receivables	-	68,651	914	-	-	69,565
Derivative assets not designated as cash flow hedge	-	-	-	1,262	-	1,262
Long-term receivables	-	-	304	-	-	304
Noncurrent deposits	122	-	-	-	-	122
	<b>P38,867</b>	<b>P68,651</b>	<b>P1,218</b>	<b>P1,262</b>	<b>P -</b>	<b>P109,998</b>

December 31, 2022						
Financial Assets at Amortized Cost				Financial Assets at FVPL	Financial Assets at FVOCI	Total
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired				
Cash in banks and cash equivalents	P35,819	P -	P -	P -	P -	P35,819
Trade and other receivables	-	81,979	926	-	-	82,905
Derivative assets not designated as cash flow hedge	-	-	-	1,257	-	1,257
Derivative assets designated as cash flow hedge	-	-	-	-	181	181
Long-term receivables	-	-	325	-	-	325
Noncurrent deposits	127	-	-	-	-	127
	<b>P35,946</b>	<b>P81,979</b>	<b>P1,251</b>	<b>P1,257</b>	<b>P181</b>	<b>P120,614</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 June 30, 2023 and December 31, 2022.

<b>June 30, 2023</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>P39,816</b>	<b>P39,816</b>	<b>P39,816</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables - net	<b>68,651</b>	<b>68,651</b>	<b>68,651</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative assets (including noncurrent portion)	<b>1,262</b>	<b>1,262</b>	<b>1,262</b>	<b>-</b>	<b>-</b>	<b>-</b>
Proprietary membership shares	<b>385</b>	<b>385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385</b>
Noncurrent deposits	<b>122</b>	<b>122</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>118</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>112,043</b>	<b>113,528</b>	<b>113,528</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities for crude oil and petroleum products	<b>58,012</b>	<b>58,012</b>	<b>58,012</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables*	<b>16,403</b>	<b>16,403</b>	<b>16,403</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative liabilities (including noncurrent portion)	<b>788</b>	<b>788</b>	<b>788</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long-term debts (including current maturities)	<b>104,570</b>	<b>121,998</b>	<b>33,612</b>	<b>21,173</b>	<b>67,213</b>	<b>-</b>
Lease liability (including current portion)	<b>14,512</b>	<b>23,706</b>	<b>2,173</b>	<b>1,981</b>	<b>5,580</b>	<b>13,972</b>
Cash bonds	<b>432</b>	<b>432</b>	<b>-</b>	<b>416</b>	<b>16</b>	<b>-</b>
Cylinder deposits	<b>655</b>	<b>655</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>655</b>
Other noncurrent liabilities**	<b>45</b>	<b>46</b>	<b>-</b>	<b>8</b>	<b>22</b>	<b>16</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, 2022</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>P37,183</b>	<b>P37,183</b>	<b>P37,183</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables - net	<b>81,979</b>	<b>81,979</b>	<b>81,979</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative assets (including noncurrent portion)	<b>1,438</b>	<b>1,438</b>	<b>1,401</b>	<b>37</b>	<b>-</b>	<b>-</b>
Proprietary membership shares	<b>352</b>	<b>352</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>-</b>
Noncurrent deposits	<b>127</b>	<b>127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>137,886</b>	<b>139,058</b>	<b>139,058</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities for crude oil and petroleum products	<b>51,067</b>	<b>51,067</b>	<b>51,067</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables*	<b>13,344</b>	<b>13,344</b>	<b>13,344</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative liabilities (including noncurrent portion)	<b>723</b>	<b>723</b>	<b>723</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long-term debts (including current maturities)	<b>107,061</b>	<b>125,710</b>	<b>20,123</b>	<b>35,913</b>	<b>69,674</b>	<b>-</b>
Lease liability (including current portion)	<b>15,094</b>	<b>24,534</b>	<b>2,138</b>	<b>2,015</b>	<b>5,486</b>	<b>14,895</b>
Cash bonds	<b>420</b>	<b>420</b>	<b>-</b>	<b>403</b>	<b>17</b>	<b>-</b>
Cylinder deposits	<b>736</b>	<b>736</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>736</b>
Other noncurrent liabilities**	<b>45</b>	<b>46</b>	<b>-</b>	<b>6</b>	<b>24</b>	<b>16</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 mark-to-market losses; however, any loss in the mark-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 mark-to-market gains; however, any gain in the mark-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>June 30, 2023</b>	December 31, 2022
Total assets	<b>P439,395</b>	P460,071
Total liabilities	<b>328,321</b>	346,521
Total equity	<b>111,074</b>	113,550
Debt to equity ratio	<b>3.0:1</b>	3.1:1
Assets to equity ratio	<b>4.0:1</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.

---

## 9. Financial Assets and Financial Liabilities

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

The Group recognizes a financial asset or a financial liability in the consolidated interim statements of financial position when it becomes a party to the contractual provisions of the instrument.

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

### Financial Assets

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

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

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

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

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

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

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

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

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

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

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

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in consolidated interim statements of income when the financial assets are derecognized, modified or impaired.

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

Cash includes cash on hand and in banks which are stated at 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.

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 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.

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 June 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	<b>P39,816</b>	<b>P39,816</b>	P37,183	P37,183
Trade and other receivables – net	<b>68,651</b>	<b>68,651</b>	81,979	81,979
Noncurrent deposits	<b>122</b>	<b>122</b>	127	127
FA at amortized cost	<b>108,589</b>	<b>108,589</b>	119,289	119,289
Derivative assets designated as cash flow hedge	-	-	181	181
FA at FVOCI	-	-	181	181
Proprietary membership shares	<b>385</b>	<b>385</b>	352	352
Derivative assets not designated as cash flow hedge	<b>1,262</b>	<b>1,262</b>	1,257	1,257
FA at FVPL	<b>1,647</b>	<b>1,647</b>	1,609	1,609
<b>Total Financial Assets</b>	<b>P110,236</b>	<b>P110,236</b>	P121,079	P121,079
Financial liabilities (FL):				
Short-term loans	<b>P112,043</b>	<b>P112,043</b>	P137,886	P137,886
Liabilities for crude oil and petroleum products	<b>58,012</b>	<b>58,012</b>	51,067	51,067
Trade and other payables*	<b>16,403</b>	<b>16,403</b>	13,344	13,344
Long-term debts including current portion	<b>104,570</b>	<b>104,570</b>	107,061	107,061
Cash bonds	<b>432</b>	<b>432</b>	420	420
Cylinder deposits	<b>655</b>	<b>655</b>	736	736
Other noncurrent liabilities**	<b>45</b>	<b>45</b>	45	45
Other FL	<b>292,160</b>	<b>292,160</b>	310,559	310,559
Derivative liabilities not designated as cash flow hedge	<b>788</b>	<b>788</b>	723	723
<b>Total Financial Liabilities</b>	<b>P292,948</b>	<b>P292,948</b>	P311,282	P311,282

\*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. Mark-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 June 30, 2023 and December 31, 2022 are 11.00% and 7.54% 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.

However, an embedded derivative is not separated if the host contract is a financial asset.

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:

December 31, 2022	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$20	US\$10	-	US\$30
Average strike rate	P47.00 to P56.50	P47.00 to P56.50	-	-
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	-	-
Interest rate risk				
Interest rate collar				
Notional amount (in million)	US\$30	US\$15	-	US\$45
Interest rate	0.44% to 1.99%	0.44% to 1.99%	-	-

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

December 31, 2022	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency and interest rate risks			
US dollar-denominated loan	(P118)	P21	(P17)
Interest rate risks			
US dollar-denominated loan	(63)	47	-

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:

June 30, 2023	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\$-	P-	P-	Financial assets at FVPL, Derivative liabilities	P-	P-	P-	P-	Other income (expenses) - net
<b>Foreign currency and interest rate risks:</b>									
Cross currency swap	-	-	-	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	-	35	-	(12)	Interest expense and other financing charges, Other income (expenses) - net
<b>Interest rate risk</b>									
Interest rate collar	-	-	-	Derivative liabilities, Other noncurrent liabilities	-	29	-	(29)	Interest expense and other financing charges
<hr/>									
December 31, 2022	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\$-	P-	P-	Financial assets at FVPL, Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	P-	(P20)	P-	P13	Other income (expenses) - net
<b>Foreign currency and interest rate risks:</b>									
Cross currency swap	30	118	-	Derivative liabilities, Other noncurrent liabilities	118	(161)	(171)	51	Interest Expense and other financing charges, and Other income (expenses) - net
<b>Interest rate risk</b>									
Interest rate collar	45	63	-	Derivative liabilities, Other noncurrent liabilities	63	17	-	(17)	Interest expense and other financing charges

No ineffectiveness was recognized in the 2023 and 2022 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.

	June 30, 2023		December 31, 2022	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	P67	(P17)	(P75)	P71
Changes in fair value:				
Foreign currency risk	-	-	-	(20)
Foreign currency risk and interest rate risk	(28)	35	294	(161)
Interest rate risk	(63)	29	67	17
Amount reclassified to profit or loss				
Foreign currency risk	-	-	-	13
Foreign currency risk and interest rate risk	-	(12)	(171)	51
Interest rate risk	-	(29)	-	(17)
Income tax effect	24	(6)	(48)	29
Balance at end of period	P-	P-	P67	(P17)

#### Derivative Instruments Not Designated as Hedges

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

#### *Freestanding Derivatives*

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

*Cross Currency Swaps.* As of June 30, 2023, the Company has an outstanding cross currency swap with notional amount of US\$20 and with maturity in May 2024. As of June 30, 2023 and December 31, 2022, the net fair value of these cross currency swaps amounted to P70 and nil, respectively.

*Interest Rate Collar* As of June 30, 2023, the Company has an outstanding interest rate collar with notional amount of US\$30 and with maturity in May 2024. As of June 30, 2023 and December 31, 2022, the net fair value of this interest rate collar amounted to P37 and nil, respectively.

*Currency Forwards.* As of June 30, 2023 and December 31, 2022, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$958 and US\$894 million, respectively, and with various maturities. As of June 30, 2023 and December 31, 2022, the net fair value of these currency forwards amounted to (P444) and P28, 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 33.0 million barrels and 31.4 million barrels as of June 30, 2023 and December 31, 2022 respectively. The estimated net receipts for these transactions amounted to P810 and P506 as of June 30, 2023 and December 31, 2022, respectively.

*Commodity Options.* As of June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended June 30, 2023 and December 31, 2022, the Group recognized mark-to-market gains from freestanding and embedded derivatives amounting to P101 and P4,673 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.



### 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 June 30, 2023 and December 31, 2022.

	<b>Level 2</b>	
	<b>June 30, 2023</b>	<b>December 31, 2022</b>
Financial Assets:		
FVPL	<b>P385</b>	<b>P352</b>
Derivative assets	<b>1,262</b>	<b>1,438</b>
Financial Liabilities:		
Derivative liabilities	<b>(788)</b>	<b>(723)</b>

The Group has no financial instruments valued based on Level 1 and Level 3 as of June 30, 2023 and December 31, 2022. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

## **10. Significant Transactions During the Period**

### a. Partial Redemption of US\$500 million of Senior Perpetual Capital Securities (SPCS)

On January 19, 2023, the Parent Company redeemed US\$22.47 million from US\$500 million SPCS at a purchase price of US\$927 per US\$1,000 in principal amount.

### b. Loan Drawdowns

On January 20, 2023, the Parent Company drew US\$30 million from the US\$550 million term loan facility to partially prepay its JP¥15 billion term loan facility. Additional US\$25 million was drawn on February 3, 2023, to partially prepay the US\$800 million long-term loan facility. The additional drawdowns are amortized over 5 years with 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning November 8, 2024. The facility is subject to a floating interest based on SOFR plus spread, repriced every 1, 3, or 6 months.

On February 17, 2023, Parent Company has upsized its US\$550 million term loan facility to US\$669 million and drew US\$88 million from the additional US\$119 loan facility on May 15, 2023 to fully preterminate the US\$800 million long-term loan facility.

### c. Reversal of Appropriation of Retained Earnings

On May 10, 2023, the BOD of the Parent Company approved the reversal of P7,000 of the remaining appropriated retained earnings for the Parent Company since the power plant project no longer needs the subject appropriation to fund its completion.

### d. Full redemption of US\$6 million of Redeemable Perpetual Securities (RPS)

On May 26, 2023, the Parent Company fully redeemed its US\$6 million RPS issued on November 27, 2019.

## 11. Basic and Diluted Earnings -per Share

Basic and diluted earnings per share amounts for the six months ended June 30, 2023 and 2022 are computed as follows:

	2023	2022
Net income attributable to equity holders of the Parent Company	<b>P5,648</b>	P6,761
Dividends on preferred shares for the period	<b>(348)</b>	-
Distributions to the holders of capital securities for the period	<b>(2,301)</b>	(2,152)
Net income attributable to common shareholders of the Parent Company (a)	<b>P2,999</b>	P4,609
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>P0.32</b>	P0.49

As of June 30, 2023 and 2022, the Parent Company has no potential dilutive debt or equity instruments.

## 12. Cash Dividends and Distributions

### Dividends

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

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2023</b>				
<b>Common</b>	<b>P0.10</b>	<b>March 6, 2023</b>	<b>March 20, 2023</b>	<b>April 4, 2023</b>
<b>Series 3A</b>	<b>17.17825</b>	<b>May 10, 2023</b>	<b>May 31, 2023</b>	<b>June 26, 2023</b>
<b>Series 3B</b>	<b>17.84575</b>	<b>May 10, 2023</b>	<b>May 31, 2023</b>	<b>June 26, 2023</b>
2022				
Series 3A	P17.17825	August 1, 2022	August 31, 2022	September 26, 2022
Series 3B	17.84575	August 1, 2022	August 31, 2022	September 26, 2022
Series 3A	17.17825	November 8, 2022	November 29, 2022	December 26, 2022
Series 3B	17.84575	November 8, 2022	November 29, 2022	December 26, 2022
Series 3A	17.17825	November 8, 2022	March 2, 2023	March 27, 2023
Series 3B	17.84575	November 8, 2022	March 2, 2023	March 27, 2023

### Distributions

#### SPCS

Payments of distributions were made on respective dates: January 18, 2023 (P841), April 18, 2023 (P1,224), January 18, 2022 (P787), April 18, 2022 (P1,140), July 18, 2022 (P864), and October 18, 2022 (P1,286).

#### RPS

Payments of distributions were made on respective dates February 10, 2023 (P50), February 27, 2023 (P3), March 22, 2023 (P64), May 10, 2023 (P51), May 26, 2023 (P3), June 22, 2023 (P65), February 10, 2022 (P46), March 1, 2022 (P3), March 22, 2022 (P62), May 10, 2022 (P47), May 27, 2022 (P3), June 22, 2022 (P64), August 10, 2022 (P50), August 30, 2022 (P3), September 22, 2022 (P69), November 10, 2022 (P53), November 25, 2022 (P3), and December 22, 2022 (P65).

---

### 13. Commitments and Contingencies

#### Supply and Lease Agreements

Petron Group has term contracts with Saudi Arabian Oil Company, Kuwait Petroleum Corporation, and Abu Dhabi National Oil Company for year 2023 to purchase various crudes. The pricing and payment mechanisms under these contracts are consistent with international market practice for Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is via either open credit or irrevocable standby letters of credit. The contracts are either automatically renewed or negotiated annually.

The Petron Malaysia Refining & Marketing Bhd (PMRMB) acquires crude oil and condensate for the Port Dickson Refinery from various sources through a combination of term purchase contracts and spot market purchases. The PMRMB has a term supply contract for Tapis crude oil and Terengganu condensate with Exxon Mobile Exploration and Production Malaysia Inc. (“EMEPMI”) for a period of 2 years until March 2024 supplemented by other short-term supply contracts and spot crude purchases. For the first half of 2023, about 58% of the crude and condensate volume is sourced from EMEPMI, while the balance from other term and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks. PMRMB also utilizes Port Dickson Refinery spare capacity for crude processing arrangement of third parties to optimize utilization and benefits.

Outstanding liabilities of the Group for such purchases are shown as part of “Liabilities for crude oil and petroleum products” account in the consolidated statements of financial position as of June 30, 2023 and December 31, 2022.

#### Lease Agreements with Philippine National Oil Company (PNOC).

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P191, starting 2017, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised every fifth year 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 at June 30, 2023 and December 31, 2022, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

#### 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 June 30, 2023. 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. As of June 30, 2023 and December 31, 2022, the Parent Company has not set up any provision related to this case because while the case is still pending, the Parent Company believes the resolution will be in its favor.

#### Other Proceedings

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

---

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

### a. Issuance of 14,000,000 Series 4 Preferred Shares

On July 7, 2023, the Parent Company issued and listed on the Philippine Stock Exchange 5,000,000 Series 4A, 2,995,000 Series 4B, and 6,005,000 Series 4C preferred shares (inclusive of the oversubscription of 1,500,000 shares) under the 50,000,000 Series 4 Shelf Registered Preferred Shares at an issue price of P1,000.00 or for a total amount of P14,000. The Series 4 Shelf Registered Preferred Shares, which were approved for issue by the Securities and Exchange Commission on June 14, 2023, are cumulative, deferrable, non-voting, non-participating, non-convertible, redeemable, and reissuable Peso-denominated perpetual preferred shares.

Petron has the redemption option starting on the second and half, third and fifth year or on any dividend payment date thereafter for Series 4A, Series 4B and Series 4C preferred shares, respectively. Dividend rates are 6.7079%, 6.7972%, 7.0861% per annum for Series 4A, Series 4B and Series 4C preferred shares, respectively.

The net proceeds were used to partly fund the full redemption on July 19, 2023 of the remaining US\$478 (P23,763) SPCS issued in 2018.

### b. Loan Drawdowns

On July 13, 2023, The Parent Company made a full drawdown of US\$225 million which will be used to redeem the US\$550 million SPCS. The facility was signed on March 28, 2023, which subsequently increased from US\$150 million to US\$225 million on June 8, 2023.

On August 14, 2023, the Parent Company made a final drawdown of US\$31 million from the US\$669 million facility. Proceeds will be used to redeem the Parent Company's P7,000 Series B Retail Bonds maturing on October 27, 2023.

### c. Dividends and Distributions

- i. On July 18, 2023, the Parent Company paid distributions amounting to US\$10.98 million (P797) to the holders of US\$500 million SPCS.
- ii. On August 1, 2023, the BOD of the Parent Company approved the declaration of cash dividends for preferred shareholders with the following details:

Type	Per Share	Date of Record	Date of Payment
Series 3A	17.17825	August 31, 2023	September 25, 2023
Series 3B	17.84575	August 31, 2023	September 25, 2023
Series 4A	16.76975	September 14, 2023	October 9, 2023
Series 4B	16.99300	September 14, 2023	October 9, 2023
Series 4C	17.71525	September 14, 2023	October 9, 2023

d. Full Redemption of US\$500 Million SPCS

On July 19, 2023, the Parent Company has fully redeemed all the remaining outstanding SPCS issued in 2018 with an aggregate amount of US\$477.53 million (P23,763). Following such redemption, distributions will cease to accrue and the redeemed securities will be cancelled and delisted from the Singapore Exchange Securities Trading Limited.

e. Additional Common Shares Subscription of Mema Holdings, Inc.

On July 19, 2023, the Parent Company and Mema Holdings, Inc. (Mema) executed a Subscription Agreement to subscribe to an additional 2,770,000,000 common shares of Mema for a subscription price of P2,770 or P1.00 per common share, of which P405 was paid on the same date.

---

## 15. 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 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 Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed the Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration insofar as the decision dismissed Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. In a resolution promulgated on October 6, 2022, the Court of Appeals denied the respective motions for reconsideration of Petron and PNOC. In consideration of the possible delay in the final resolution of the case if Petron were to proceed with the filing of a petition for review with the Supreme Court on the issue of rental payments it seeks to recover and the decision in favor of Petron on the rescission of the Deeds of Conveyance and the reconveyance to it of the properties that has been affirmed by the Court of Appeals, Petron has decided to no longer pursue a petition for review with the Supreme Court. The PNOC filed a petition for review on certiorari with the Supreme Court in early December 2022. As of June 30, 2023, Petron is awaiting orders from the Supreme Court.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2023.
- d. The effect of Covid-19 and Russia-Ukraine conflict in the performance of the Group as of year-to-date June 30, 2023 are 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 grew at a decelerated pace of 4.3% in 2Q 2023 from the 6.4% growth recorded in 1Q. The uncertainties and headwinds in the global environment highlighted by elevated inflation and higher interest rates contributed to the subdued expansion.

Economic growth ( <i>in percentage</i> )	1Q 2023	2Q 2023	1H 2022	1H 2023
GDP	6.4	4.3	7.8	5.3
<i>By Expenditure</i>				
Household Consumption	6.4	5.5	9.3	6.0
Government Consumption	6.2	(7.1)	7.6	(1.4)
Capital Formation	12.6	(0.04)	17.4	5.4
Exports	1.0	4.1	7.6	2.5
Imports	4.7	0.4	15.3	2.5
<i>By Industry</i>				
Agriculture	2.2	0.2	0.2	1.2
Industry	4.0	2.1	8.0	3.0
Services	8.4	6.0	8.8	7.2

Household consumption grew 5.5%, slower than 6.4% in 1Q 2023 mainly due to fading revenge-spending amidst increasing prices. On the other hand, Government Consumption which had been an important source of support throughout the pandemic, contracted by 7.1%. Capital formation slightly dipped by 0.04% as interest rate hikes by the Bangko Sentral ng Pilipinas (BSP) affected investments. Meanwhile, exports of goods and services rose 4.1%, faster than the growth of imports' at only 0.4%.

On the supply side, all of the major economic sectors posted positive growth although at a slower pace as compared to the previous quarter with the challenging high inflation and interest rate environment. Agriculture remained weak with its vulnerability to calamities and raising input costs.

Ytd-June 2023 GDP slowed to 5.3%, lower than last year's 7.8% and the government's target of 6-7% growth.

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

91-day T-Bill rates averaged 5.1% in 1H 2023, higher compared to 1.3% of the same period last year. With the easing inflation and with the US Federal Reserve pausing its rate hikes, the Bangko Sentral ng Pilipinas (BSP) kept its key policy rate unchanged at 6.25% since March 2023.

### Peso-Dollar Exchange Rate

The peso averaged P55.2/\$ in 1H 2023, a 5.6% depreciation from P52.1/\$ in the same period last year. Weakness in peso is due in large part to the country's high current account deficit and the narrower interest rate differential between the US Federal Reserve and BSP policy rates.

### Inflation

The rate of increase in prices of commodities and services accelerated to 7.2% in 1H 2023, from 4.4% in the same period last year. Its surge was driven primarily by costlier food prices due to supply constraints. Price pressures are also stemming from the potential impact of El Niño on electricity prices and second-round effects from transport fare and wage hikes.

## Industry Oil Demand

Oil demand<sup>1</sup> in the country grew by 9.2% to 155,306 MB in 2022 from 142,258 MB in 2021. Growth in demand was supported by heightened economic activity with the ease of travel restrictions nationwide but tempered by high fuel prices.

## Oil Market

Year-on-year prices of Dubai declined by 22% to \$79.0/bbl in 1H 2023 vs. \$101.8/bbl in the same period last year, with the global economic slowdown resulting to reduced economic activity. Product cracks also weakened with gasoline cracks declining from \$26.4/bbl in 1H 2022 to \$17.6/bbl in 1H 2023, diesel cracks from \$36.6/bbl to \$22.1/bbl, and kero-jet cracks from \$27.7/bbl to \$20.2/bbl.

## RECENT LEGISLATION THAT MAY IMPACT ON THE OIL INDUSTRY

### LPG Industry Regulation Act

Republic Act 11592 or the LPG Industry Regulation Act, enacted into law last October 14, 2021 aims to ensure health, safety, security, environmental and quality standards in the LPG industry by instituting reforms in the existing standards and practices. Highlights of the law:

- defines the responsibilities of the DOE, as the lead agency, including authority to suspend or revoke license to operate and issue closure orders for industry participants who engage in prohibited acts
- defines prohibited acts and penalties such as engaging in LPG industry activities without the required licenses, certificates, and permits; selling, fabricating, or refilling unfilled LPG cylinders without the approval of the trademark owner; selling, exchanging, possessing empty LPG cylinders that belong to another trademark owner; non-compliance to standards – safety, materials, markings etc.;
- defines LPG cylinder ownership as the trademark owner whose permanent mark appears on the cylinder;
- provides for establishment of an LPG Cylinder Exchange and Swapping Program, within six months of effectivity of the Act, which includes computation of depreciated value of an LPG cylinder, timeline for the exchange, swapping or buy back of LPG cylinders among industry participants and the establishment of accredited swapping centers.
- provides for establishment an LPG Cylinder Improvement Program, within six months of effectivity of the Act, which includes amount to be set aside for an LPG cylinder improvement fund, the entities responsible for the fund and how it is used and the procedures for access to the fund.

The following circulars were issued by the DOE in 2022 in order to implement the provisions of the law:

*DOE-DTI Joint Department Circular 2022-05-0001- Implementing Rules and Regulations;*

*Department Circular 2022-11-0037 – Guidelines on Registration of License to Operate to Qualified DOE-Regulated LPG Industry Participants*

---

<sup>1</sup> Based on DOE data. Includes Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG only. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, Asphalt, and Petcoke. FY 2022 is the latest published data.



*DOE-DTI Joint Department Circular 2022-11-0002 – Guidelines for the LPG Cylinder Exchange, Swapping and Improvement Programs*

*DOE Department Circular 2022-11-0033 – Rules of Procedure for Administrative Casesa*

Existing Government Regulations

*Corporate Recovery and Tax Incentives for Enterprises Act (“CREATE Act”).* Republic Act No. 11534 or the CREATE Act was signed into law by the President of the Philippines on March 26, 2021. The CREATE Act lowers corporate income taxes and rationalizes fiscal incentives.

The corporate income tax rate for domestic corporations and resident foreign corporations has been reduced to 25% effective July 1, 2021 and on January 1, 2021 for non-resident foreign corporations. Domestic corporations and resident foreign corporations no longer have an option to be taxed at 15% on gross income and the rate of the minimum corporate income tax shall be lowered to 1%. Under the CREATE Act, persons that directly import petroleum products for resale in the Philippine customs territory and/or in free zones will be subject to applicable duties and taxes. However, importers can file for the refund of duties and taxes for direct or indirect export of petroleum products, including the subsequent export of fuel, subject to the appropriate rules of the fuel marking program, and/or other tax-exempt sales by the importer.

The CREATE Act also provides for the rationalization of tax incentives that may be granted by investment promotion agencies (such as the AFAB) to qualified registered business enterprises. As part of the rationalization of tax incentives, the CREATE Act provides that (i) any law to the contrary notwithstanding, the importation of petroleum products by any person will be subject to the payment of applicable duties and taxes under the Customs Modernization and Tariff Act and the National Internal Revenue Code, respectively, upon importation into the Philippine customs territory and/or into free zones (as defined in the Customs Modernization and Tariff Act), subject to the right of the importer to file claims for refund of duties and taxes under applicable law; and (ii) the importation of crude oil that is intended to be refined at a local refinery, including the volumes that are lost and not converted to petroleum products when the crude oil actually undergoes the refining process, will be exempt from payment of applicable duties and taxes, provided the applicable duties and taxes on the refined petroleum products shall be paid upon the lifting of the petroleum products produced from the imported crude oil in accordance with the rules and regulations that may be prescribed by the Bureau of Customs and the Bureau of Internal Revenue.

Under the CREATE Act, the Company shall be entitled to, among others: (i) a lower corporate income tax and (ii) the tax exemption for the importation of crude oil to be refined at a local petroleum refinery.

Under the tax regime prior to the effectivity of the CREATE Act, domestic refiners are disadvantaged because they are made to pay VAT upon importation of crude oil which they cannot recover until the finished products refined from them are sold. Compared to non-refiners, which pay VAT upon importation of finished products, domestic refiners are unable to recover the VAT for a longer period. The Company believes that the CREATE Act allows it to be more competitive as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel which only pay after sales tax.

*Electric Vehicle Industry Development Act (“EVIDA Law”).* RA 11697 lapsed into law on April 15, 2022. The law provides for a framework for the regulation of Electric Vehicle (EV) and Electric Vehicle Charging Stations (“EVCS”) in the Philippines. The law mandates the creation of a Comprehensive Roadmap of the Electric Vehicle Industry (“CREVI”), which will serve as the main development plan for the EV industry. Under the CREVI, select gasoline stations will be identified, which will be required to designate dedicated spaces for the installation of EVCS. The law also

mandates mandatory EV share (at least 5% of their fleet) of entities such as commercial logistics companies, TNVs, public transport operators, government agencies within the timeframe to be indicated in the CREVI. The law's implementing rules and regulations was signed on September 2, 2022.

*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, this cost was eventually passed on to oil companies beginning 2020 which resulted in higher fuel prices.

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

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

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

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

*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. Currently pending with the House of Representatives are two bills to amend the Philippine Competition Act to, among others, legislate competition policy, amend requirements for PCC notification, and strengthen the powers of the PCC.

*Amendments to the Price Act.* RA 10623 was signed on September 6, 2013 and mandates the implementation of a 15-day price freeze for basic necessities that are wholly imported and deregulated under existing laws such as 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.

*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, including installation of EVCs in retail stations

*RA 11898. Extended Producer’s Responsibility Act of 2022.* The bill lapsed into law on 23 July 2022, which amends RA 9003, otherwise known as the Ecological Solid Waste Management Act of 2000. The law requires product manufacturers and obliged companies to adopt proper management of plastic packaging wastes, from manufacturing to end-life cycle.

*Energy Resiliency and Disaster Management.* The DOE implemented DC 2022-06-0028 to supplement DC 2018-01-0001 to strengthen Task Force on Energy Resilience to mitigate impacts of disaster. DOE is currently finalizing its National Contingency Plan for earthquakes (The Big One).

*Discounts for Senior Citizens and Persons with Disabilities (“PWDs”).* Senior Citizens and PWDs are entitled to discount for LPG and kerosene as mandated by the following:

Joint Administrative Order 17-01. Issued on 17 February 2017, this Order provides for 5% special discount for basic necessities, which includes household LPG and kerosene.

Joint Memorandum Circular (“JMC”) No. 01s 2022. Issued on 06 May 2022, this joint circular ensures that the discounts and privileges of Senior Citizens and PWDs are recognized if transactions are made online.

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

As of June 30, 2023

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	<b>P48,559</b>
Accounts Receivable – Non-Trade	<b>20,092</b>
<b>Total Accounts Receivable - Net</b>	<b>P68,651</b>

**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P46,074
	31 – 60 days	1,400
	61 – 90 days	300
	Over 90 days	1,516
<b>Total</b>		<b>49,290</b>
Allowance for doubtful accounts		(731)
<b>Accounts Receivable – Trade</b>		<b>P48,559</b>

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

### Financial Performance

#### 1H 2023 vs 1H 2022

The first half of 2023 saw the continued correction in oil prices from the record-high surge in the second quarter last year. This led to the drop in prices and contraction in refining cracks during the period. Notwithstanding, the Group posted a 3% improvement in Gross Profit compared to same period last year. However, with the rising financing cost due to successive interest hikes rest, the Group's net income for the first six months ended at ₱6.14 billion, posting a 20% drop from the same period last year.

	Period Ended		Horizontal Analysis		Vertical Analysis	
	2023	2022	Amount	%	2023	2022
	(in Millions)					
Sales	367,037	398,517	(31,480)	(8%)	100%	100%
Cost of Goods Sold	(343,443)	(375,582)	32,139	9%	94%	94%
Gross Profit	23,594	22,935	659	3%	6%	6%
Selling and Administrative Expenses	(8,393)	(7,654)	(739)	(10%)	2%	2%
Other Operating Income	810	735	75	10%	0%	0%
Interest Expense and Other Financing Charges	(8,787)	(5,244)	(3,543)	68%	2%	1%
Interest Income	697	319	378	high	0%	0%
Share in Net Income of an Associate and Joint Venture	48	32	16	50%	0%	0%
Other Income (Expense) - net	44	(1,101)	1,145	high	0%	0%
Income before Income Tax	8,013	10,022	(2,009)	(20%)	2%	3%
Income Tax Expense	(1,871)	(2,316)	445	(19%)	1%	1%
Net Income	6,142	7,706	(1,564)	(20%)	2%	2%
Attributable to Equity Holders of the Parent Company	5,648	6,761	(1,113)	(16%)	2%	2%
Attributable to Non-controlling Interests	494	945	(451)	(48%)	0%	0%
	6,142	7,706	(1,564)	(20%)	2%	2%
Sales Volume in million barrels	57,613	51,406	6,207	12%		

Highlights of the first half performance were as follows:

**Consolidated Sales Volume** grew by 12% to **57.61 million barrels (MMB)** compared with the 51.41 MMB recorded in the first half of 2022. Steady increases were reported across all trades driven mainly by strong demand recovery in Commercial sales registering a 13% jump in volume notably on Jet A-1, which already surpassed pre-pandemic level. Retail sales sustained recovery as both Philippines and Malaysia posted a combined 8% volume growth.

Despite the higher sales volume, **Net Sales** decreased by 8% to **₱ 367.04 billion** from the significant correction in commodity prices from record-high levels in the second quarter due to the invasion of Ukraine by Russia.

**Cost of Goods Sold (CGS)** likewise went down by 9% to **₱ 343.44 billion** from ₱ 375.58 billion in the same period last year on account of lower cost per liter, despite increase in sold volume. Benchmark crude Dubai dipped by 22% to \$79/barrel (bbl) average in 1H 2023 from \$102/bbl in 1H 2022.

**Selling and Administrative Expenses** was 10% higher at **₱ 8.39 billion** as against previous year's ₱ 7.65 billion owing to the increase in maintenance and repairs at the service stations, terminals and IT-related assets, increased purchase of LPG cylinders and spending for promotional activities, advertising, and outsourced services and utilities.

**Other Operating Income** was up by 10% from ₱ 735 million to **₱ 810 million** attributed to rental income.

**Interest Expense and Other Financing Charges** escalated by 68% to **₱ 8.79 billion** traced to the continuous rise in interest rates, and higher average borrowing levels.

Similarly, **Interest Income** more than doubled to **₱ 697 million** owing to elevated interest rates.

**Share in Net Income of an Associate**, Petrogen Insurance Corporation, and Joint Venture, Terminal Bersama Sdn. Bhd., amounted to **₱ 45 million** and **₱ 3 million**, respectively.

**Other Income – net** amounting to **₱ 44 million** in 1H 2023 was a reversal from last year's Other Expense - net of ₱ 1.10 billion due primarily to the mark-to-market valuation gain on commodity hedges as opposed to the loss recognized in 2022, partly countered by forex-hedging loss which reversed last year's gain.

**Income tax expense** for the first half of 2023 amounted to **₱ 1.87 billion**, lower by 19% following the lower taxable earnings.

## 1H 2022 vs 1H 2021

Consolidated net income doubled to **₱7.71 billion in the first half (1H) 2022** from ₱ 3.87 billion in the same period last year as sales volume slowly return to pre-pandemic level along with healthy regional refining margins.

	Period ended		Horizontal Analysis		Analysis	
	June 30		Increase		2022	2021
	2022	2021	Amount	%		
	(in Millions)					
Sales	398,517	174,131	224,386	129%	100%	100%
Cost of Goods Sold	375,582	158,995	216,587	136%	94%	91%
Gross Profit	22,935	15,136	7,799	52%	6%	9%
Selling and Administrative Expenses	(7,654)	(6,791)	(863)	13%	(2%)	(4%)
Other Operating Income	735	603	132	22%	0%	0%
Interest Expense and Other Financing Charges	(5,244)	(4,776)	(468)	10%	(1%)	(3%)
Interest Income	319	259	60	23%	0%	0%
Share in Net Earnings of an Associate and Joint Venture	32	31	1	3%	0%	0%
Other Income (Expense) - net	(1,101)	474	(1,575)	(high)	(0%)	0%
Income before Income Tax	10,022	4,936	5,086	103%	3%	3%
Income Tax Expense	2,316	1,063	1,253	118%	1%	1%
Net Income	7,706	3,873	3,833	99%	2%	2%
Attributable to Equity Holders of the Parent Company	6,761	3,410	3,351	98%	2%	2%
Attributable to Non-controlling Interests	945	463	482	104%	0%	0%
	7,706	3,873	3,833	99%	2%	2%
Sales Volume	51,406	38,468	12,938	34%	13%	22%

Below are the significant reasons for the Group's improved performance in the 1H 2022 versus same period last year:

**Consolidated Sales Volume** rose to **51.41 million barrels (MMB)**, 34% higher than the 38.47 MMB reported in 1H 2021. All trades posted improvement with Commercial sales registering the highest increase as more industries, including aviation, exhibited recovery from the pandemic's impact. Meanwhile, the Group's Retail Sales grew by 27% as mobility further eased up both in the Philippines and Malaysia.

**Net Sales** escalated significantly to **₱ 398.52 billion** from ₱ 174.13 billion in 1H 2021 traced to the increase in sales volume and unprecedented hike in regional MOPS prices as fuel supply was disrupted by the Russia-Ukraine conflict. The depreciation of the peso as against the US dollar also contributed to the increase in selling price.

Similarly, **Cost of Goods Sold (CGS)** more than doubled to **₱ 375.58 billion** from ₱ 159.00 billion due to increased cost per liter, more volume sold and higher US dollar-peso exchange rate. Benchmark crude Dubai continued to surge in 1H 2022 averaging \$102/bbl, up by 60% from US\$63/bbl in 1H 2021 driven by supply concerns due to the ongoing geopolitical conflicts against a background of global demand recovery.



**Gross profit** grew by **52%** to **₹ 22.94 billion** as the Group benefited from strong refining cracks and increased refinery production during the period, partly moderated by lower marketing margins because of stiffer price competition in the domestic market.

**Selling and Administrative Expenses (OPEX)** increased by **13%** at **₹ 7.65 billion** compared to **₹ 6.79 billion** in the same period last year on account of higher lot rental for service stations, property appraisal fees, IT-related support fees, and employee cost.

**Other Operating Income** up **22%** to **₹ 735 million** mainly from higher rental income.

**Interest Expense and Other Financing Charges** went up by 10% to **₹ 5.24 billion** primarily due to increased working capital requirement.

**Interest Income** climbed to **₹ 319 million** from **₹ 259 million** traced to higher average placements and interest rates in 1H 2022 compared to same period in previous year.

**Equity in Net Earnings of an Associate and Joint Venture** amounted to **₹ 32 million** versus **₹ 31 million** last year, representing the Group's share in net income of Petrogen Insurance Corporation and Terminal Bersama Sdn. Bhd.

**Other Expense - net amounting to ₹ 1.10 billion** fully reversed the **₹ 474 million Other Income - net** recorded in the same period last year mainly due to mark-to-market provision for commodity hedges valuation compared to gains recognized in 1H 2021.

**Income tax expense** amounted to **₹ 2.32 billion** more than double the **₹ 1.06 billion** tax expense in previous year due to higher financial income before tax.

## Financial Position

### 1H 2023 vs 2022

	Horizontal Analysis				Vertical Analysis	
	Jun 31	Dec 31	Increase (Decrease)		Jun 31	Dec 31
	2023	2022	Amount	%	2023	2022
Cash and cash equivalents	<b>39,816</b>	37,183	2,633	7%	<b>9%</b>	8%
Financial assets at fair value	<b>1,262</b>	1,753	(491)	(28%)	<b>0%</b>	0%
Trade and other receivables – net	<b>68,651</b>	81,979	(13,328)	(16%)	<b>16%</b>	18%
Inventories	<b>78,144</b>	85,347	(7,203)	(8%)	<b>18%</b>	19%
Other current assets	<b>39,775</b>	37,025	2,750	7%	<b>9%</b>	8%
<b>Total Current Assets</b>	<b>227,648</b>	243,287	(15,639)	(6%)	<b>52%</b>	53%
Investment in shares of stock of an associate and joint venture	<b>1,141</b>	1,075	66	6%	<b>0%</b>	0%
Property, plant and equipment – net	<b>167,755</b>	170,153	(2,398)	(1%)	<b>38%</b>	37%
Right of Use	<b>5,053</b>	5,398	(345)	(6%)	<b>1%</b>	1%
Investment property – net	<b>26,727</b>	28,437	(1,710)	(6%)	<b>6%</b>	6%
Deferred tax assets - net	<b>1,069</b>	1,812	(743)	(41%)	<b>0%</b>	0%
Goodwill	<b>7,947</b>	8,509	(562)	(7%)	<b>2%</b>	2%
Other noncurrent assets – net	<b>2,055</b>	1,400	655	47%	<b>0%</b>	0%
<b>Total Noncurrent Assets</b>	<b>211,747</b>	216,784	(5,037)	(2%)	<b>48%</b>	47%
<b>Total Assets</b>	<b>439,395</b>	460,071	(20,676)	(4%)	<b>100%</b>	100%
Short term loans	<b>112,043</b>	137,886	(25,843)	(19%)	<b>25%</b>	30%
Liabilities for crude oil and petroleum products	<b>58,012</b>	51,067	6,945	14%	<b>13%</b>	11%
Trade and other payables	<b>26,118</b>	22,896	3,222	14%	<b>6%</b>	5%
Current portion of lease liability	<b>1,398</b>	1,380	18	1%	<b>0%</b>	0%
Derivative liabilities	<b>788</b>	723	65	9%	<b>0%</b>	0%
Income tax payable	<b>295</b>	204	91	45%	<b>0%</b>	0%
Current portion of long-term debt – net	<b>27,064</b>	13,399	13,665	102%	<b>6%</b>	3%
<b>Total Current Liabilities</b>	<b>225,718</b>	227,555	(1,837)	(1%)	<b>51%</b>	49%

*Forward*

	<b>Horizontal Analysis</b>				<b>Vertical Analysis</b>	
	<b>Jun 31</b>	<b>Dec 31</b>	<b>Increase (Decrease)</b>		<b>Jun 31</b>	<b>Dec 31</b>
	<b>2023</b>	<b>2022</b>	<b>Amount</b>	<b>%</b>	<b>2023</b>	<b>2022</b>
Long-term debt - net of current portion	<b>77,506</b>	93,662	(16,156)	(17%)	<b>18%</b>	20%
Retirement benefits liability	<b>3,295</b>	3,261	34	1%	<b>1%</b>	1%
Deferred tax liabilities - net	<b>3,916</b>	3,601	315	9%	<b>1%</b>	1%
Lease liability - net of current portion	<b>13,114</b>	13,714	(600)	(4%)	<b>3%</b>	3%
Asset retirement obligation	<b>3,640</b>	3,527	113	3%	<b>1%</b>	1%
Other noncurrent liabilities	<b>1,132</b>	1,201	(69)	(6%)	<b>0%</b>	0%
<b>Total Noncurrent Liabilities</b>	<b>102,603</b>	118,966	(16,363)	(14%)	<b>23%</b>	26%
<b>Total Liabilities</b>	<b>328,321</b>	346,521	(18,200)	(5%)	<b>75%</b>	75%
Capital stock	<b>9,485</b>	9,485	-	-	<b>2%</b>	2%
Additional paid-in capital	<b>37,500</b>	37,500	-	-	<b>9%</b>	8%
Capital securities	<b>61,293</b>	62,712	(1,419)	(2%)	<b>14%</b>	14%
Retained earnings	<b>32,355</b>	30,357	1,998	7%	<b>7%</b>	7%
Equity Reserves	<b>(19,674)</b>	(16,887)	(2,787)	17%	<b>(4%)</b>	(4%)
Treasury stock	<b>(18,000)</b>	(18,000)	-	-	<b>(4%)</b>	(4%)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>	<b>102,959</b>	105,167	(2,208)	(2%)	<b>23%</b>	23%
<b>Non-controlling Interests</b>	<b>8,115</b>	8,383	(268)	(3%)	<b>2%</b>	2%
<b>Total Equity</b>	<b>111,074</b>	113,550	(2,476)	(2%)	<b>25%</b>	25%
<b>Total Liabilities and Equity</b>	<b>439,395</b>	460,071	(20,676)	(4%)	<b>100%</b>	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end June 2023 totaled **₱ 439.40 billion**, 4% or ₱ 20.68 billion lower than end-2022 balance of ₱ 460.07 billion. The reduction in commodity prices brought down the trade receivable and inventory balances.

**Cash and cash equivalents** increased by 7% to **₱ 39.82 billion** from ₱ 37.18 billion mainly from cash generated from operations, which were partly used to payoff loans and interest and fund the capital projects during the first six months of 2023.

**Financial assets at fair value** went down to **₱ 1.26 billion** from ₱ 1.75 billion due to lower expected receipts on outstanding commodity and currency hedging transactions and reclassification of stock investments to non-current asset.

**Trade and other receivables - net** declined by 16% to **₱ 68.65 billion** attributable to the general reduction in fuel prices and lower government receivables of foreign subsidiaries.

**Inventories** decreased to **₱ 78.14 billion** from ₱ 85.35 billion from lower prices of crude and finished products.

**Other current assets** increased by 7% to **₱ 39.78 billion** from additional creditable withholding taxes and excise claims from sales to tax exempt entities.

**Investment in shares of stock of an associate and joint venture** increased by 6% to **₱ 1.14 billion** with the recognition of share in net income and other comprehensive income for the period.

**Investment property - net** and **Right of Use** asset declined by 6% to **₱ 26.73 billion** and **₱ 5.05 billion**, respectively, after the depreciation booked for the period.

**Deferred tax assets – net** went down from ₱ 1.81 billion to **₱ 1.07 billion** owing to the deferred tax on unrealized forex gain, and net decrease in temporary differences of inventory valuation and depreciation per tax accounting vis-a-vis financial reporting, offset by the additional Net Operating Loss Carry-Over (NOLCO) and Minimum Corporate Income Tax (MCIT) for the period.

**Goodwill – net** dropped by 7% to **₱ 7.95 billion** due to currency translation loss with the depreciation of the Ringgit versus the US dollar partly offset by the appreciation of the peso versus the US dollar.

**Other noncurrent assets – net** went up to **₱ 2.06 billion** from ₱ 1.40 billion mainly from additional catalysts and reclassification of stock investment from current asset.

**Short-term loans** declined by 19% from ₱ 137.89 billion to **₱ 112.04 billion** due to the net settlement of short-term loans during the period.

**Liabilities for crude oil and petroleum products** stood higher at **₱ 58.01 billion** compared to end-2022 level of ₱ 51.07 billion owing primarily to the higher crude volume purchased during the period.

**Trade and other payables** jumped by 14% to **₱ 26.12 billion** due to higher outstanding liabilities to vendors and accrued taxes.

**Derivative liabilities** increased to **₱ 788 million** with the increase in expected settlement on outstanding currency hedging transactions partly offset by the lower expected settlement on outstanding commodity hedges.

**Income tax payable** escalated by 45% to **₱ 295 million** as tax liabilities of foreign subsidiaries increased.

**Deferred tax liabilities – net** went up to **₱ 3.92 billion** from ₱ 3.60 billion due to Petron Malaysia's utilization of deferred taxes on carry-forward capital allowance.

**Other noncurrent liabilities** stood at **₱ 1.13 billion**, 6% lower than end-2022 level brought about by the decrease in LPG cylinder deposits.

**Retained Earnings** increased by 7% to **₱ 32.36 billion** traced to the net income realized during the period partly less payment of cash dividends and distributions.

The negative balance of **Equity reserves** increased from ₱16.89 billion to **₱ 19.67 billion** on account of the translation loss on investment in Petron Malaysia as a result of the weakening of Malaysian Ringgit against the US dollar.

## 1H 2022 vs 2021

	Jun 31	Dec 31	Horizontal Analysis		Vertical Analysis	
			2022	2021	Increase (Decrease) Amount	%
Cash and cash equivalents	<b>46,773</b>	36,406	10,367	28%	<b>10%</b>	9%
Financial assets at fair value	<b>2,101</b>	1,005	1,096	109%	<b>0%</b>	0%
Trade and other receivables – net	<b>87,493</b>	51,745	35,748	69%	<b>18%</b>	13%
Inventories	<b>102,893</b>	67,684	35,209	52%	<b>21%</b>	17%
Other current assets	<b>33,712</b>	31,195	2,517	8%	<b>7%</b>	8%
<b>Total Current Assets</b>	<b>272,972</b>	188,035	84,937	45%	<b>56%</b>	46%
Investment in shares of stock of an Associate	<b>1,042</b>	1,012	30	3%	<b>0%</b>	0%
Property, plant and equipment – net	<b>171,850</b>	171,602	248	0%	<b>35%</b>	42%
Right of Use	<b>5,399</b>	5,648	(249)	(4%)	<b>1%</b>	1%
Investment property – net	<b>28,534</b>	29,175	(641)	(2%)	<b>6%</b>	7%
Deferred tax assets – net	<b>1,770</b>	2,172	(402)	(19%)	<b>0%</b>	1%
Goodwill	<b>8,415</b>	8,235	180	2%	<b>2%</b>	2%
Other noncurrent assets – net	<b>1,536</b>	1,541	(5)	(0%)	<b>0%</b>	0%
<b>Total Noncurrent Assets</b>	<b>218,546</b>	219,385	(839)	(0%)	<b>44%</b>	54%
<b>Total Assets</b>	<b>491,518</b>	407,420	84,098	21%	<b>100%</b>	100%
Short term loans	<b>142,608</b>	109,196	33,412	31%	<b>29%</b>	27%
Liabilities for crude oil and petroleum products	<b>65,331</b>	42,641	22,690	53%	<b>13%</b>	10%
Trade and other payables	<b>26,654</b>	14,001	12,653	90%	<b>5%</b>	3%
Current portion of lease liability	<b>1,384</b>	1,335	49	4%	<b>0%</b>	0%
Derivative liabilities	<b>3,818</b>	997	2,821	283%	<b>1%</b>	0%
Income tax payable	<b>2,280</b>	302	1,978	655%	<b>0%</b>	0%
Current portion of long-term debt – net	<b>18,610</b>	21,580	(2,970)	(14%)	<b>4%</b>	5%
<b>Total Current Liabilities</b>	<b>260,685</b>	190,052	70,633	37%	<b>53%</b>	47%

## Forward

	<b>Horizontal Analysis</b>				<b>Vertical Analysis</b>	
	<b>Jun 31</b>	Dec 31	Increase (Decrease)		<b>Jun 31</b>	Dec 31
	<b>2022</b>	2021	Amount	%	<b>2022</b>	2021
Long-term debt – net of current portion	<b>88,821</b>	81,065	7,756	10%	<b>18%</b>	20%
Retirement benefits liability	<b>2,909</b>	3,327	(418)	(13%)	<b>1%</b>	1%
Deferred tax liabilities – net	<b>3,473</b>	3,784	(311)	(8%)	<b>1%</b>	1%
Lease liability – net of current portion**	<b>13,603</b>	14,220	(617)	(4%)	<b>3%</b>	3%
Asset retirement obligation	<b>3,002</b>	2,857	145	5%	<b>1%</b>	1%
Other noncurrent liabilities	<b>1,204</b>	1,202	2	0%	<b>0%</b>	0%
<b>Total Noncurrent Liabilities</b>	<b>113,012</b>	106,455	6,557	6%	<b>23%</b>	26%
<b>Total Liabilities</b>	<b>373,697</b>	296,507	77,190	26%	<b>76%</b>	73%
Capital stock	<b>9,485</b>	9,485	-	-	<b>2%</b>	2%
Additional paid-in capital	<b>37,500</b>	37,500	-	-	<b>8%</b>	9%
Capital securities	<b>62,712</b>	62,712	-	-	<b>13%</b>	15%
Retained earnings	<b>34,841</b>	30,232	4,609	15%	<b>7%</b>	7%
Equity Reserves	<b>(16,980)</b>	(18,341)	1,361	(7%)	<b>(3%)</b>	(5%)
Treasury stock	<b>(18,000)</b>	(18,000)	-	-	<b>(4%)</b>	(4%)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>	<b>109,558</b>	103,588	5,970	6%	<b>22%</b>	25%
<b>Non-controlling Interests</b>	<b>8,263</b>	7,325	938	13%	<b>2%</b>	2%
<b>Total Equity</b>	<b>117,821</b>	110,913	6,908	6%	<b>24%</b>	27%
<b>Total Liabilities and Equity</b>	<b>491,518</b>	407,420	84,098	21%	<b>100%</b>	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end June 2022 totaled **₱ 491.52 billion**, 21% or ₱ 84.10 billion higher than end 2021 balance of ₱ 407.42 billion. The increase in total assets is primarily attributed to inventories and trade and other receivables due to higher prices.

**Cash and cash equivalents** increased by 28% to **₱ 46.77 billion** from ₱ 36.41 billion from the net cash generated from operations and financing activities, which were used to fund the working capital requirement and expenditures on capital projects during the first semester of 2022.

**Financial assets at fair value** went up to **₱ 2.10 billion** from ₱ 1.00 billion due to gains on outstanding commodity hedging transactions which was fully offset by the losses booked under derivative liabilities.

**Trade and other receivables - net** rose by 69% to **₱ 87.49 billion** because of higher product prices and elevated levels of the government receivables of foreign subsidiaries.

**Inventories** swelled to **₱ 102.89 billion** from ₱ 67.68 billion as a result of higher prices of crude and finished products.

**Other current assets** increased by 8% to **₱ 33.71 billion** from additional creditable withholding taxes.

**Deferred tax assets – net** went down to **₱ 1.77 billion** from ₱ 2.17 billion with the net decrease in temporary differences in the inventory valuation and depreciation computation per tax accounting and that of financial reporting.

**Short-term loans** rose by 31% to **₱ 142.61 billion** from ₱ 109.20 billion with the availment of additional loans to cover the increase in working capital requirements during the first half of 2022.

**Liabilities for crude oil and petroleum products** increased to **₱ 65.33 billion** compared to end-2021 level of ₱ 42.64 billion owing primarily to higher prices of crude and finished products.

**Trade and other payables** jumped by 90% to **₱26.65 billion** due to higher outstanding liabilities to vendors and hedging pay-out.

**Derivative liabilities** increased three-fold to **₱ 3.82 billion** with the increase in expected settlement on outstanding commodity hedging transactions.

**Income tax payable** rose to **₱ 2.28 billion** as tax liabilities of foreign subsidiaries increased.

**Retirement benefits liability** declined from ₱ 3.33 billion to **₱ 32.91 billion** after deducting the contribution to retirement fund during the period.

**Deferred tax liabilities – net** dropped by 8% to **₱ 3.47 billion** from the ₱ 3.78 billion level as of end-2021 due to the net decrease in temporary differences pertaining to unrealized losses on commodity hedging.

**Asset retirement obligation** rose by 5% to **₱ 3.00 billion** compared to end-2021 level of ₱ 2.86 billion after the provision for accretion booked during the first half of 2022.

**Retained Earnings** increased by 15% to **₱ 34.84 billion** after considering the net income for the period less the payment of cash distributions to the holders of capital securities.

The **negative balance of Equity reserves** decreased from ₱18.34 billion to **₱ 16.98 billion** on account of the translation gain on the investment in foreign subsidiaries following the weakening of the peso against the US dollar.

**Non-controlling interests** rose by 13% to **₱ 8.26 billion** mainly from its proportionate share in net income during the period.

## Cash Flows

### 1H 2023 vs 1Q 2022

As of end-June 2023, cash and cash equivalents stood at **₱ 39.82 billion**, higher by ₱ 2.63 billion from the balance at the beginning of the year. Cash generated from operations of ₱ 49.23 billion was used to settle loans (₱ 27.72 billion), pay dividends and distributions (₱ 4.15 billion), and redeem portion of the outstanding capital securities (₱ 1.49 billion). Remaining cash was also used to pay ₱ 8.99 billion interest and taxes and fund various capital projects totaling ₱ 2.80 billion.

In Million Pesos	Jun 30, 2023	Jun 30, 2022	Change
Operating inflows (outflows)	40,844	(19,602)	60,446
Investing outflows	(2,798)	(3,327)	529
Financing (outflows) inflows	(34,801)	30,647	(65,448)

### 1H 2022 vs 1Q 2021

Cash and cash equivalents as of June 30, 2022 increased by ₱10.37 billion from end-December 2021 balance to **₱ 46.77 billion**. During the first semester of 2022, cash generated from operations of ₱23.25 billion was used to partly cover the increase in working capital requirement of ₱ 37.46 billion. The ₱ 30.65 billion net cash provided by financing activities covered the gap of ₱ 14.21 billion in operating activities, ₱ 5.13 billion interest and tax payments, and funding of ₱ 3.33 billion for various refinery, terminal, and service station projects.

In Million Pesos	June 30, 2022	June 30, 2021	Change
Operating (outflows) inflows	(19,602)	(4,281)	(15,321)
Investing (outflows)	(3,327)	(4,052)	725
Financing inflows (outflows)	30,647	12,170	18,477

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

Ratio	30-Jun-23	31-Dec-22
Current Ratio	1.0	1.1
Total Interest-bearing Debt to Equity Ratio	2.0	2.2
Return on Equity (%)	4.6	6.0
Interest Rate Coverage Ratio	1.9	1.6
Assets to Equity Ratio	4.0	4.1

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

This ratio is a rough indication of a company's ability to service its current obligations. Generally, higher current ratio indicates greater ability of the company to pay currently maturing obligations.

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

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

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

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity fund in the statements of financial position. A business that has a high return on equity is more likely capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

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

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

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

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



## **PART II – OTHER INFORMATION**

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

NONE.

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

<b>Financial Ratios</b>	<b>Formula</b>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.01</b>	1.07
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	<b>0.49</b>	0.53
<b>Solvency</b>			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	<b>1.95</b>	2.16
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.96</b>	4.05
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>1.91</b>	1.62
<b>Profitability</b>			
f) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	<b>4.57%</b>	5.97%
g) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	<b>1.14%</b>	1.54%
<b>Operating Efficiency</b>			
h) Volume Growth	$\left( \frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	<b>12.07%</b>	37.17%
i) Sales Growth	$\left( \frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	<b>-7.90%</b>	95.78%
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	<b>4.36%</b>	2.24%

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

<sup>b</sup> excludes lease liabilities and advances from a related party

**PETRON CORPORATION**  
**Proceeds from Issuance of Series E and Series F Fixed Rate Bonds**  
**June 30, 2023**

**i. Gross and Net Proceeds as disclosed in the final prospectus**

In P Millions

<b>Gross Proceeds</b>	<b>P18,000.00</b>
Less: Underwriting fees for the Preferred Shares being sold by the Company	63.00
Taxes to be paid by the Company	135.00
Philippine SEC filing and legal research fee	5.11
Listing application fee	0.20
Listing maintenance fee	0.45
Rating fee	4.05
Trustee fees	0.13
Registry and paying	0.50
Estimated legal and other professional fees	7.80
Estimated other expenses	0.55
<b>Total Expenses</b>	<b>P216.79</b>
<b>Net Proceeds</b>	<b>P17,783.21</b>

The net proceeds of the Offer shall be used for (i) the redemption of the Company's Series A Bonds, (ii) the partial financing of the Power Plant Project, and (iii) payment of existing indebtedness

**ii. Actual Gross and Net Proceeds**

In P Millions

<b>Actual Gross Proceeds</b>	<b>P18,000.00</b>
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	227.95
<b>Actual Net Proceeds</b>	<b>P17,772.05</b>

**iii. Each Expenditure Item where the Proceeds was Used**

In P Millions

<b>Actual Net Proceeds</b>	<b>P17,772.05</b>
Less: Redemption of the Series A Bonds	13,000.00
Payment for power plant project	2,991.61
Payment of long-term loan amortization to:	
Bank of the Philippine Islands	697.49
BDO Unibank, Inc.	535.71
UnionBank	250.00
<b>Total Payments</b>	<b>P17,474.81</b>
<b>Balance</b>	<b>P297.24</b>

**iv. Balance of the Proceeds as of the End of the Reporting Period**

As of June 30, 2023, balance of proceeds amounted to P297.24 million.