

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
Jun 30, 2019
2. SEC Identification Number
31171
3. BIR Tax Identification No.
000-168-801
4. Exact name of issuer as specified in its charter
PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office
San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
Postal Code
1550
8. Issuer's telephone number, including area code
(63 2) 886-3888, 884-9200
9. Former name or former address, and former fiscal year, if changed since last report
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 2A (PRF2A)	7,122,320
PREFERRED SERIES 2B (PRF2B)	2,877,680
PREFERRED SERIES 3A (PRF3A)	13,403,000
PREFERRED SERIES 3B (PRF3B)	6,597,000
PCOR SERIES A BONDS DUE 2021 (IN MIL PESO)	13,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO)	7,000

PCOR SERIES C BONDS DUE 2024 (IN MIL PESO)	13,200
PCOR SERIES D BONDS DUE 2025 (IN MIL PESO)	6,800
TOTAL DEBT AS OF JUNE 30, 2019 (IN MIL PESO-CONSO)	279,754

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

Yes No

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

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

12. Indicate by check mark whether the registrant:

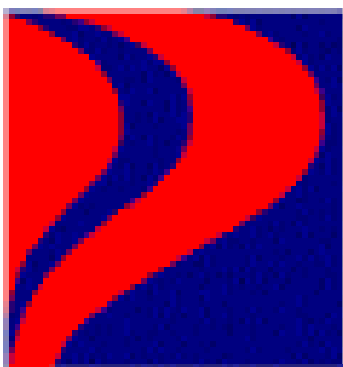
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes No

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

Yes No

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



PETRON

Petron Corporation
PCOR

For the period ended	Jun 30, 2019
Currency (indicate units, if applicable)	Peso (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2019	Dec 31, 2018
Current Assets	169,634	162,022
Total Assets	383,905	358,154
Current Liabilities	133,957	156,018
Total Liabilities	279,754	271,968
Retained Earnings/(Deficit)	48,580	49,491
Stockholders' Equity	104,151	86,186
Stockholders' Equity - Parent	97,400	79,479
Book Value per Share	7.2	7.37

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	130,249	144,386	254,807	273,498
Gross Expense	125,327	137,620	245,020	257,936
Non-Operating Income	272	220	514	509
Non-Operating Expense	3,646	2,324	7,040	4,065
Income/(Loss) Before Tax	1,548	4,662	3,261	12,006
Income Tax Expense	231	946	641	2,504
Net Income/(Loss) After Tax	1,317	3,716	2,620	9,502
Net Income Attributable to Parent Equity Holder	1,122	3,371	2,227	8,894
Earnings/(Loss) Per Share (Basic)	0.06	0.24	0.11	0.71
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-0.37	1.11
Earnings/(Loss) Per Share (Diluted)	-	-

Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the 2nd Quarter 2019 of the Company as filed with the Securities and Exchange Commission today, August 14, 2019.

Filed on behalf by:

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



108142019001634



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

SEC Registration No. 0000031171

Company Name PETRON CORP.

Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains

Company Type Stock Corporation

Document Information

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Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

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Period Covered June 30, 2019

No. of Days Late 0

Department CFD

Remarks

COVER SHEET

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 S. E. C. Registration Number

P	E	T	R	O	N																

 (Company's Full Name)

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

ATTY. JOEL ANGELO C. CRUZ Contact Person	884-9200 Company Telephone Number
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Permit to offer securities
Secondary License Type, if Applicable

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N/A						
Amended Articles Number/Section						

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">145,568 (as of June 30, 2019)</td> </tr> </table> Total No. of Stockholders	145,568 (as of June 30, 2019)	Total Amount of Borrowings <table style="width: 100%;"> <tr> <td style="width: 50%; border: 1px solid black; height: 20px;"></td> <td style="width: 50%; border: 1px solid black; height: 20px;"></td> </tr> <tr> <td style="font-size: 8px; text-align: center;">Domestic</td> <td style="font-size: 8px; text-align: center;">Foreign</td> </tr> </table>			Domestic	Foreign	
145,568 (as of June 30, 2019)							
Domestic	Foreign						

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2019.
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines
Province, Country or other
jurisdiction of incorporation or
organization
6. (SEC Use Only)
Industry Classification Code:
7. Mandaluyong City, 40 San Miguel Avenue, 1550
Address of principal office Postal Code
8. (0632) 884-9200
Registrant's telephone number, including area code
9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (As of June 30, 2019)
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock Series 2A</u>	<u>7,122,320 Shares</u>
<u>Preferred Stock Series 2B</u>	<u>2,877,680 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>Total Liabilities</u>	<u>P279,754 Million (as of June 30, 2019)</u>

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

Yes [X] No []

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

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

12. Indicate by check mark whether the Registrant:

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

Yes [X] No []

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

Yes [X] No []

PART I - FINANCIAL INFORMATION		
Item 1	Financial Statements	
	Petron Corporation & Subsidiaries Consolidated Interim Statements of Financial Position	5-6
	Petron Corporation & Subsidiaries Consolidated Interim Statements of Income	7
	Petron Corporation & Subsidiaries Consolidated Interim Statements of Comprehensive Income	8
	Petron Corporation & Subsidiaries Consolidated Interim Statements of Changes in Equity	9-10
	Petron Corporation & Subsidiaries Consolidated Interim Statements of Cash Flows	11-12
	Selected Notes to the Consolidated Interim Financial Statements	13-56
	Details of Accounts Receivables	57
Item 2	Management's Discussion and Analysis of Financial Position and Financial Performance	58-64
PART II - OTHER INFORMATION		
Other Information		65
SIGNATURES		66
	Financial Soundness Indicators	67

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

<i>Note</i>	Unaudited June 30 2019	Audited December 31 2018
ASSETS		
Current Assets		
Cash and cash equivalents	9, 10 P39,691	P17,405
Financial assets at fair value	9, 10 855	1,126
Investments in debt instruments	9, 10 111	40
Trade and other receivables - net	7, 9, 10 45,506	42,497
Inventories	59,421	63,873
Other current assets	7 24,050	37,081
Total Current Assets	169,634	162,022
Noncurrent Assets		
Investments in debt instruments	9, 10 275	338
Property, plant and equipment - net	5, 6 165,339	163,984
Investment property - net	29,594	16,536
Right-of-use assets - net	6,422	-
Deferred tax assets - net	223	257
Goodwill - net	8,340	8,532
Other noncurrent assets - net	9, 10 4,078	6,485
Total Noncurrent Assets	214,271	196,132
	P383,905	P358,154
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans	8, 9, 10 P66,419	P82,997
Liabilities for crude oil and petroleum products	9, 10 28,934	25,991
Trade and other payables	7, 9, 10 24,802	28,471
Derivative liabilities	9, 10 692	614
Income tax payable	278	146
Current portion of long-term debt - net	9, 10 11,517	17,799
Current portion of lease liability	9, 10 1,315	-
Total Current Liabilities	133,957	156,018

Forward



	<i>Note</i>	Unaudited June 30 2019	Audited December 31 2018
Noncurrent Liabilities			
Long-term debt - net of current portion	<i>9, 10, 11</i>	P116,228	P100,201
Retirement benefits liability		2,434	2,433
Deferred tax liabilities - net		7,448	8,450
Lease liability - net of current portion	<i>9, 10</i>	14,410	-
Asset retirement obligation		3,712	3,592
Other noncurrent liabilities	<i>9, 10</i>	1,565	1,274
Total Noncurrent Liabilities		145,797	115,950
Total Liabilities		279,754	271,968
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		9,485	9,485
Additional paid-in capital	<i>11</i>	37,511	19,653
Capital securities		24,881	24,881
Retained earnings		48,580	49,491
Equity reserves		(15,057)	(14,031)
Treasury stock		(8,000)	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		97,400	79,479
Non-controlling Interests		6,751	6,707
Total Equity		104,151	86,186
		P383,905	P358,154

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

Certified by:


DENNIS S. JANSON
Assistant Vice President - Controllers




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

(Amounts in Million Pesos, Except Per Share Data)

		April to June		January to June	
	<i>Note</i>	2019	2018	2019	2018
SALES	5	P130,249	P144,386	P254,807	P273,498
COST OF GOODS SOLD		121,423	133,384	237,506	250,322
GROSS PROFIT		8,826	11,002	17,301	23,176
SELLING AND ADMINISTRATIVE EXPENSES		(3,904)	(4,236)	(7,514)	(7,614)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	5	(3,445)	(2,159)	(6,629)	(4,065)
INTEREST INCOME	5	272	220	514	348
OTHER INCOME (EXPENSES) - Net		(201)	(165)	(411)	161
		(7,278)	(6,340)	(14,040)	(11,170)
INCOME BEFORE INCOME TAX		1,548	4,662	3,261	12,006
INCOME TAX EXPENSE	5	231	946	641	2,504
NET INCOME		P1,317	P3,716	P2,620	P9,502
Attributable to:					
Equity holders of the Parent Company		P1,122	P3,371	P2,227	P8,894
Non-controlling interests		195	345	393	608
		P1,317	P3,716	P2,620	P9,502
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	12	P0.06	P0.24	P0.11	P0.71

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

Certified by:


DENNIS S. JANSON
Assistant Vice President - Controllers


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

	April to June		January to June	
	2019	2018	2019	2018
NET INCOME	P1,317	P3,716	P2,620	P9,502
OTHER COMPREHENSIVE INCOME				
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Net loss on cash flow hedges	(128)	-	(188)	-
Exchange differences on translation of foreign operations	(1,675)	(840)	(1,050)	3,038
Unrealized fair value gain (loss) on investments in debt instruments at fair value through other comprehensive income (FVOCI)	4	(4)	10	(7)
Share in other comprehensive loss of a joint venture	-	-	-	(1)
Income tax benefit	37	1	53	2
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	(1,762)	(843)	(1,175)	3,032
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - Net of tax	P(445)	P2,873	P1,445	P12,534
Attributable to:				
Equity holders of the Parent Company	P(391)	P2,671	P1,201	P11,526
Non-controlling interests	(54)	202	244	1,008
	P(445)	P2,873	P1,445	P12,534

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

Certified by:


DENNIS S. JANSON
Assistant Vice President - Controllers


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


	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Additional		Capital Securities	Retained Earnings		Equity Reserves			Total		
		Capital Stock	Paid-in Capital		Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2019 (Audited)		P9,485	P19,653	P24,881	P15,160	P34,331	(P2,940)	(P11,091)	(P10,000)	P79,479	P6,707	P86,186
Adjustment due to adoption of Philippine Financial Reporting Standard (PFRS) 16		-	-	-	-	(1,018)	-	-	-	(1,018)	(23)	(1,041)
As of January 1, 2019 (As adjusted)		9,485	19,653	24,881	15,160	33,313	(2,940)	(11,091)	(10,000)	78,461	6,684	85,145
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	(132)	-	(132)	-	(132)
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	7	-	7	-	7
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(901)	-	(901)	(149)	(1,050)
Other comprehensive income for the period		-	-	-	-	-	-	(1,026)	-	(1,026)	(149)	(1,175)
Net income for the period		-	-	-	-	2,227	-	-	-	2,227	393	2,620
Total comprehensive income for the period		-	-	-	-	2,227	-	(1,026)	-	1,201	244	1,445
Cash dividends	13	-	-	-	-	(1,261)	-	-	-	(1,261)	(177)	(1,438)
Distributions paid	13	-	-	-	-	(859)	-	-	-	(859)	-	(859)
Issuance of preferred shares	11	-	17,858	-	-	-	-	-	2,000	19,858	-	19,858
Transactions with owners		-	17,858	-	-	(2,120)	-	-	2,000	17,738	(177)	17,561
As of June 30, 2019 (Unaudited)		P9,485	P37,511	P24,881	P15,160	P33,420	(P2,940)	(P12,117)	(P8,000)	P97,400	P6,751	P104,151

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2018 (Audited)		P9,485	P19,653	P30,546	P15,160	P33,982	(P2,146)	(P3,025)	(P10,000)	P93,655	P5,964	P99,619
Adjustment due to adoption of PFRS 9		-	-	-	-	42	-	-	-	42	(2)	40
As of January 1, 2018 (As adjusted)		9,485	19,653	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	5,962	99,659
Unrealized fair value loss on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	(5)	-	(5)	-	(5)
Share in other comprehensive loss of a joint venture		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,638	-	2,638	400	3,038
Other comprehensive income for the period		-	-	-	-	-	-	2,632	-	2,632	400	3,032
Net income for the period		-	-	-	-	8,894	-	-	-	8,894	608	9,502
Total comprehensive income for the period		-	-	-	-	8,894	-	2,632	-	11,526	1,008	12,534
Cash dividends	13	-	-	-	-	(1,729)	-	-	-	(1,729)	(237)	(1,966)
Distributions paid	13	-	-	-	-	(1,973)	-	-	-	(1,973)	-	(1,973)
Redemption of undated subordinated capital securities		-	-	(16,371)	-	-	-	(4,938)	-	(21,309)	-	(21,309)
Issuance of senior perpetual capital securities		-	-	24,881	-	-	-	-	-	24,881	-	24,881
Transactions with owners		-	-	8,510	-	(3,702)	-	(4,938)	-	(130)	(237)	(367)
As of June 30, 2018 (Unaudited)		P9,485	P19,653	P39,056	P15,160	P39,216	(P2,146)	(P5,331)	(P10,000)	P105,093	P6,733	P111,826

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

Certified by:


DENNIS S. JANSON
 Assistant Vice President - Controllers


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

		For the Six Months Ended June 30	
	<i>Note</i>	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P3,261	P12,006
Adjustments for:			
Depreciation and amortization	5	6,258	5,652
Interest expense and other financing charges	5	6,629	4,065
Retirement benefits costs		56	302
Unrealized foreign exchange (gains) losses - net		(1,905)	3,394
Interest income	5	(514)	(348)
Other gains		(67)	(199)
Operating income before working capital changes		13,718	24,872
Changes in noncash assets, certain current liabilities and others		13,832	(25,078)
Cash generated from (used in) operations		27,550	(206)
Contributions to retirement fund		-	(600)
Interest paid		(6,379)	(3,791)
Income taxes paid		(597)	(833)
Interest received		350	104
Net cash flows provided by (used in) operating activities		20,924	(5,326)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(9,667)	(4,581)
Proceeds from sale of property and equipment		58	35
Additions to investment property		(414)	-
Proceeds from sale of investment property		115	-
Reductions from financial assets at FVOCI		-	178
Increase in other noncurrent assets		(468)	-
Net cash flows used in investing activities		(10,376)	(4,368)


Forward



				For the Six Months Ended June 30	
				2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from availment of loans	8		P217,995		P160,450
Payments of:					
Loans	8, 11		(223,345)		(145,556)
Cash dividends and distributions	13		(2,093)		(3,899)
Issuance of preferred shares	11		19,858		-
Issuance of senior perpetual capital securities			-		24,881
Redemption of undated subordinated capital securities			-		(21,309)
Net cash flows provided by financing activities			12,415		14,567
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
			(677)		971
NET INCREASE IN CASH AND CASH EQUIVALENTS					
			22,286		5,844
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD					
			17,405		17,014
CASH AND CASH EQUIVALENTS AT END OF PERIOD					
			P39,691		P22,858

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

Certified by:


DENNIS S. JANSON

Assistant Vice President - Controllers

M.S.

PETRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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

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

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

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

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

2. Statement of Compliance

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

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

3. Significant Accounting Policies

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

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

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

Adopted in 2019

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

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

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

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

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

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

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

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

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

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

ASSETS	
Other current assets	(P642)
Property, plant and equipment - net	(2,465)
Investment property - net	12,721
Right-of-use assets - net	6,442
Other noncurrent assets - net	(2,866)
	P13,190
LIABILITIES AND EQUITY	
Trade and other payables	(P983)
Lease liabilities	15,519
Deferred tax liabilities	(305)
Total Liabilities	14,231
Retained earnings	(1,018)
Non-controlling interests	(23)
Total Equity	(1,041)
	P13,190

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

Operating lease commitments as of December 31, 2018	P25,401
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(9,882)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	P15,519

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

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

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

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

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

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

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

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

To be Adopted 2020

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

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

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

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

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

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

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

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

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

To be Adopted 2021

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

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

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

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

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

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

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

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

4. Use of Judgments and Estimates

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

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

5. Segment Information

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

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

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

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

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

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
June 30, 2019						
Revenue:						
External sales	P253,614	P -	P523	P504	P166	P254,807
Inter-segment sales	104,700	71	355	-	(105,126)	-
Operating income	9,400	59	229	68	31	9,787
Net income	2,369	83	60	74	34	2,620
Assets and liabilities:						
Segment assets*	423,985	1,914	9,487	690	(52,394)	383,682
Segment liabilities*	286,381	649	5,155	115	(19,994)	272,306
Other segment information:						
Property, plant and equipment - net	164,776	-	-	129	434	165,339
Depreciation and amortization	6,342	-	63	8	(155)	6,258
Interest expense	6,529	-	157	1	(58)	6,629
Interest income	534	22	6	10	(58)	514
Income tax expense	601	12	18	8	2	641

*excluding deferred tax assets and liabilities

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

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

*excluding deferred tax assets and liabilities

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

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
June 30, 2018						
Revenue:						
External sales	P272,408	P -	P474	P440	P176	P273,498
Inter-segment sales	141,759	59	295	-	(142,113)	-
Operating income	15,167	54	138	38	165	15,562
Net income	9,389	82	48	53	(70)	9,502
Assets and liabilities:						
Segment assets	416,478	1,760	6,699	678	(56,962)	368,653
Segment liabilities	269,541	631	5,219	96	(26,490)	248,997
Other segment information:						
Property, plant and equipment - net	172,595	-	-	124	6,020	178,739
Depreciation and amortization	5,639	-	4	9	-	5,652
Interest expense	4,065	-	79	-	(79)	4,065
Interest income	408	14	1	4	(79)	348
Income tax expense	2,495	14	12	6	(23)	2,504

*excluding deferred tax assets and liabilities

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

Inter-segment sales transactions amounted to P105,126, P284,934 and P142,064 for the periods ended June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

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

	Retail	Lube	Gasul	Industrial	Others	Total
June 30, 2019						
Revenue	P123,969	P2,342	P13,576	P65,653	P48,074	P253,614
Property, plant and equipment	11,946	49	328	112	152,341	164,776
Capital expenditures	3,651	9	21	5	18,403	22,089
December 31, 2018						
Revenue	P269,255	P4,883	P27,810	P132,397	P120,613	P554,958
Property, plant and equipment	12,192	70	499	90	150,567	163,418
Capital expenditures	3,326	6	14	9	8,989	12,344
June 30, 2018						
Revenue	P131,979	P2,784	P12,978	P66,378	P58,289	P272,408
Property, plant and equipment	22,427	83	432	151	149,502	172,595
Capital expenditures	3,444	6	16	38	6,629	10,133

Geographical Segments

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

	June 30, 2019	December 31, 2018	June 30, 2018
Local	P317,408	P284,469	P291,993
International	66,274	73,428	76,660
	P383,682	P357,897	P368,653

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, 2019, December 31, 2018 and June 30, 2018:

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
June 30, 2019						
Local	P152,047	P35	P878	P504	(P574)	P152,890
Export/international	206,267	36	-	-	(104,386)	101,917
December 31, 2018						
Local	P311,951	P44	P1,803	P923	(P979)	P313,742
Export/international	527,139	72	-	-	(283,567)	243,644
June 30, 2018						
Local	P172,187	P23	P769	P440	(P464)	P172,955
Export/international	241,980	36	-	-	(141,473)	100,543

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

6. Property, Plant and Equipment

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

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
January 1, 2018 (Audited)	P32,504	P185,304	P17,436	P4,951	P14,631	P7,429	P262,255
Additions	694	446	424	209	45	8,598	10,416
Disposals/reclassifications	1,661	2,117	(299)	31	131	(3,738)	(97)
Reclassification to investment property	(15,244)	-	-	-	(10,207)	-	(25,451)
Currency translation adjustment	517	370	247	48	218	39	1,439
December 31, 2018 (Audited)	20,132	188,237	17,808	5,239	4,818	12,328	248,562
Adjustment due to adoption of PFRS 16	(918)	(1,816)	(176)	-	(370)	-	(3,280)
December 31, 2018 (as adjusted)	19,214	186,421	17,632	5,239	4,448	12,328	245,282
Additions	497	697	1,577	20	1	6,875	9,667
Disposals/reclassifications	487	102	(1)	71	324	(1,255)	(272)
Currency translation adjustment	(323)	(120)	(208)	(39)	(374)	(95)	(1,159)
June 30, 2019 (Unaudited)	19,875	187,100	19,000	5,291	4,399	17,853	253,518
Accumulated Depreciation and Amortization:							
January 1, 2018 (Audited)	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	861	7,539	948	481	89	-	9,918
Disposals/reclassifications	(396)	(16)	(903)	(101)	(10)	-	(1,426)
Reclassification to investment property	(8,083)	-	-	-	(1,060)	-	(9,143)
Currency translation adjustment	240	258	127	27	12	-	664
December 31, 2018 (Audited)	12,827	54,077	12,379	4,204	1,091	-	84,578
Adjustment due to adoption of PFRS 16	(451)	(193)	(63)	-	(108)	-	(815)
December 31, 2018 (as adjusted)	12,376	53,884	12,316	4,204	983	-	83,763
Additions	390	3,759	508	238	41	-	4,936
Disposals/reclassifications	124	-	(230)	(4)	90	-	(20)
Currency translation adjustment	(77)	(211)	(111)	(32)	(69)	-	(500)
June 30, 2019 (Unaudited)	12,813	57,432	12,483	4,406	1,045	-	88,179
Carrying Amount:							
December 31, 2018 (Audited)	P7,305	P134,160	P5,429	P1,035	P3,727	P12,328	P163,984
June 30, 2019 (Unaudited)	P7,062	P129,668	P6,517	P885	P3,354	P17,853	P165,339

Capital Commitments

As of June 30, 2019 and December 31, 2018, the Group has outstanding commitments to acquire property, plant and equipment amounting to P18,597 and P17,818, respectively.

7. Related Party Disclosures

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

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

	<i>Note</i>	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	2019 2018	P60 211	P - -	P2,467 2,399	P - -	On demand; long-term; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e</i>	2019 2018	6 12	116 1,026	6 7	116 25	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d,g</i>	2019 2018	3,408 6,523	2,410 4,904	1,552 2,097	2,096 889	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c,f</i>	2019 2018	- 7	25 59	1 1	- -	On demand; non-interest bearing	Unsecured no impairment
		2019	P3,474	P2,551	P4,026	P2,212		
		2018	P6,753	P5,989	P4,504	P914		

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

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for six months ended June 30, 2019 follow:

Balance as of January 1, 2019	P82,997
Loan availments	190,406
Loan repayments	(206,867)
Currency translation adjustment	(117)
Balance as of June 30, 2019	P66,419

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 181 days and annual interest ranging from 2.90% to 8.50% and 2.65% to 7.00% as of and for the periods ended June 30, 2019 and December 31, 2018, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

Long-term Loans

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

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

9. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

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

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

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

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

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

	June 30, 2019		December 31, 2018	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	512	26,233	217	11,397
Trade and other receivables	227	11,649	316	16,635
Other assets	18	928	27	1,426
	757	38,810	560	29,458
Liabilities				
Short-term loans	80	4,099	285	14,977
Liabilities for crude oil and petroleum products	527	26,991	480	25,243
Long-term debt (including current maturities)	1,250	64,065	950	49,951
Other liabilities	325	16,667	346	18,202
	2,182	111,822	2,061	108,373
Net foreign currency -denominated monetary liabilities	(1,425)	(73,012)	(1,501)	(78,915)

The Group incurred net foreign currency exchange gains (losses) amounting to P1,689 and (P3,787) for the periods ended June 30, 2019 and 2018, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
June 30, 2019	51.240
December 31, 2018	52.580
June 30, 2018	53.340

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, 2019 and December 31, 2018:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
June 30, 2019				
Cash and cash equivalents	(P376)	(P402)	P376	P402
Trade and other receivables	(65)	(209)	65	209
Other assets	(8)	(17)	8	17
	(449)	(628)	449	628
Short-term loans	80	56	(80)	(56)
Liabilities for crude oil and petroleum products	243	697	(243)	(697)
Long-term debts (including current maturities)	1,250	875	(1,250)	(875)
Other liabilities	258	249	(258)	(249)
	1,831	1,877	(1,831)	(1,877)
	P1,382	P1,249	(P1,382)	(P1,249)

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P641 and P500 for the period ended June 30, 2019 and for the year ended December 31, 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

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

June 30, 2019	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P4,422	P5,672	P21,291	P3,893	P22,343	P7,336	P64,957
Interest rate	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 7.8%	5.5% - 8.1%	
Floating Rate							
US\$ denominated (expressed in PhP)	7,320	18,564	22,487	7,847	7,847	-	64,065
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	-	
	P11,742	P24,236	P43,778	P11,740	P30,190	P7,336	P129,022

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

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

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

Credit Risk

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

President and the Chairman.

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

	June 30, 2019	December 31, 2018
Cash in banks and cash equivalents	P36,988	P14,143
Proprietary membership shares	268	254
Derivative assets	898	1,079
Investments in debt instruments	386	378
Trade and other receivables - net	45,506	42,497
Long-term receivables - net	265	253
Noncurrent deposits	107	94
	P84,418	P58,698

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

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

Investments in Debt Instruments and Proprietary Membership Shares

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

Trade and Other Receivables and Long-Term Receivables

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

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

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

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P17,563 and P9,204 as of June 30, 2019 and December 31, 2018, respectively. These securities may only be called on or applied upon default of customers.

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

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

June 30, 2019						
Financial Assets at Amortized Cost				Financial Assets at Fair Value Through Profit or Loss (FVPL)	Financial Assets at FVOCI	Total
12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired				
Cash in banks and cash equivalents	P36,988	P -	P -	P -	P -	P36,988
Trade and other receivables	-	45,506	957	-	-	46,463
Derivative assets not designated as cash flow hedge	-	-	-	555	-	555
Derivative assets designated as cash flow hedge	-	-	-	-	343	343
Proprietary membership shares	-	-	-	268	-	268
Investments in debt instruments	226	-	-	-	160	386
Long-term receivables	-	265	53	-	-	318
Noncurrent deposits	107	-	-	-	-	107
	P37,321	P45,771	P1,010	P823	P503	P85,428

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

Liquidity Risk

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

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

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

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

June 30, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P39,691	P39,691	P39,691	P -	P -	P -
Trade and other receivables - net	45,506	45,506	45,506	-	-	-
Derivative assets (including noncurrent portion)	898	898	587	116	195	-
Proprietary membership shares	268	268	268	-	-	-
Investments in debt instruments	386	417	125	123	169	-
Long-term receivables - net	265	265	-	265	-	-
Noncurrent deposits	107	107	-	3	-	104
Financial Liabilities						
Short-term loans	66,419	66,564	66,564	-	-	-
Liabilities for crude oil and petroleum products	28,934	28,934	28,934	-	-	-
Trade and other payables*	21,523	21,523	21,523	-	-	-
Derivative liabilities (including noncurrent portion)	1,054	1,054	692	259	103	-
Long-term debts (including current maturities)	127,745	149,513	17,779	29,557	94,016	8,161
Lease liability (including current portion)	15,725	28,062	1,920	1,941	5,120	19,081
Cash bonds	448	448	-	431	2	15
Cylinder deposits	686	686	-	-	-	686
Other noncurrent liabilities**	69	69	-	28	22	19

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

**excluding cash bonds, cylinder deposits and derivative liabilities

Commodity Price Risk

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

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

Other Market Price Risk

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

Capital Management

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

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

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

	June 30, 2019	December 31, 2018
Total assets	P383,905	P358,154
Total liabilities	279,754	271,968
Total equity	104,151	86,186
Debt to equity ratio	2.7:1	3.2:1
Assets to equity ratio	3.7:1	4.2:1

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

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

10. Financial Assets and Financial Liabilities

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

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

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

Classification and Subsequent Measurement of Financial Instruments

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

Debt Issue Costs

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

Offsetting Financial Instruments

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

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

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P39,691	P39,691	P17,405	P17,405
Trade and other receivables - net	45,506	45,506	42,497	42,497
Investments in debt instruments	226	226	226	226
Long-term receivables - net	265	265	253	253
Noncurrent deposits	107	107	94	94
FA at amortized cost	85,795	85,795	60,475	60,475
Investments in debt instruments	160	160	152	152
Derivative assets designated as cash flow hedge	343	343	222	222
FA at FVOCI	503	503	374	374
Proprietary membership shares	268	268	254	254
Derivative assets not designated as cash flow hedge	555	555	857	857
FA at FVPL	823	823	1,111	1,111
Total financial assets	P87,121	P87,121	P61,960	P61,960

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	P66,419	P66,419	P82,997	P82,997
Liabilities for crude oil and petroleum products	28,934	28,934	25,991	25,991
Trade and other payables*	21,523	21,523	23,189	23,189
Long-term debts including current portion	127,745	127,745	118,000	118,000
Derivative liabilities designated as cash flow hedge	722	722	332	332
Lease liability including current portion	15,725	15,725	-	-
Cash bonds	448	448	434	434
Cylinder deposits	686	686	573	573
Other noncurrent liabilities**	69	69	77	77
Other FL	262,271	262,271	251,593	251,593
Derivative liabilities not designated as cash flow hedge	332	332	470	470
Total financial liabilities	P262,603	P262,603	P252,063	P252,063

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

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

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

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

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

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

Derivative Financial Instruments and Hedge Accounting

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

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

Freestanding Derivatives

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

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

Cash Flow Hedges

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

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

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

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

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

Embedded Derivatives

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

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

June 30, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$61	US\$171	US\$176	US\$408
Average strike rate	P52.87 to P55.58	P52.83 to P55.83	P52.83 to P55.95	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$10	US\$20	US\$20	US\$50
Strike rate	P47.00 to P57.50	P47.00 to P57.50	P47.00 to P57.50	
Fixed interest rate	5.75%	5.75%	5.75%	
<hr/>				
December 31, 2018	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount (in million)	US\$22	US\$65	US\$120	US\$207
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P53.95 to P57.16	

The following are the amounts relating to hedged items:

June 30, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P216	P -	(P151)
Foreign currency and interest rate risks			
US dollar-denominated loan	P163	(P111)	P53
<hr/>			
December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated loan	P110	P -	(P77)

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

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

June 30, 2019	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$408	P333	P549	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P216)	(P228)	P -	P123	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	US\$50	P10	P173	Other noncurrent assets, Derivative liabilities, and Other noncurrent liabilities	(P163)	P59	P79	P16	Interest expense and other financing charges, and Other income (expenses) - net
<hr/>									
December 31, 2018	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$207	P222	P332	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P110)	(P157)	P -	P47	Other income (expenses) - net

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

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

	June 30, 2019		December 31, 2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	P -	(P77)	P -	P -
Changes in fair value:				
Foreign currency risk	-	(228)	-	(157)
Foreign currency risk and interest rate risk	(238)	59	-	-
Amount reclassified to profit or loss:				
Foreign currency risk	-	123	-	47
Foreign currency risk and interest rate risk	79	16	-	-
Income tax effect	48	9	-	33
Balance at end of period	(P111)	(P98)	P -	(P77)

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Currency Forwards. As of June 30, 2019 and December 31, 2018, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$448 million and US\$907 million, respectively, and with various maturities in 2019. As of June 30, 2019 and December 31, 2018, the net negative fair value of these currency forwards amounted to P146 and P296, respectively.

Call Spread Swaps. As of June 30, 2019, the Group has outstanding call spread swaps with a notional amount of US\$15 million maturing on December 2019. The net negative fair value of these call spread swaps amounted to P3.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019. 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 12.2 million barrels and 17.0 million barrels as of June 30, 2019 and December 31, 2018, respectively. The estimated net receipts for these transactions amounted to P144 and P546 as of June 30, 2019 and December 31, 2018, respectively.

Commodity Options. As of June 30, 2019 and December 31, 2018, the Group has outstanding 3-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 1.5 million barrels and 150 thousand barrels, respectively. The call and put options can be exercised at various calculation dates in 2019 with specified quantities on each calculation date. The estimated net receipts for these call and put options amounted to P228 and P137 as of June 30, 2019 and December 31, 2018, respectively.

Embedded Derivatives

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchases contracts, the peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of June 30, 2019 and December 31, 2018, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of June 30, 2019 and December 31, 2018, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended June 30, 2019 and 2018, the Group recognized marked-to-market losses (gains) from freestanding and embedded derivatives amounting to P953 and (P4,041), respectively.

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

	Level 2	
	June 30, 2019	December 31, 2018
Financial Assets:		
Proprietary membership shares	P268	P254
Derivative assets	898	1,079
Investments in debt instruments	160	152
Financial Liabilities:		
Derivative liabilities	(1,054)	(802)

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

11. Significant Transactions During the Period

- a. On May 10, 2019, the Parent Company signed and executed a US\$800 million term loan facility. Initial drawdown of US\$300 million was made on May 15, 2019, the proceeds of which were used to refinance the Parent Company's existing dollar-denominated bilateral short-term loans. On May 31, 2019, the Parent Company drew an additional US\$236 million from the facility to partially prepay its US\$1 billion term loan facility. As of June 30, 2019, US\$264 million remains undrawn from the facility.

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

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

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

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

12. Basic and Diluted Earnings Per Share

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

	2019	2018
Net income attributable to equity holders of the Parent Company	P2,227	P8,894
Dividends on preferred shares for the period	(323)	(323)
Distributions to the holders of capital securities for the period	(839)	(1,916)
Net income attributable to common shareholders of the Parent Company (a)	P1,065	P6,655
Weighted average number of common shares outstanding (in millions) (b)	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	P0.11	P0.71

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

13. Cash Dividends and Distributions

Dividends

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

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

Distributions

On January 18, 2019, the Parent Company paid distributions amounting to US\$11.500 million (P859) to the holders of the US\$500 million SPCS.

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

14. Commitments and Contingencies

Supply and Lease Agreements

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

Petron Malaysia Refining & Marketing Bhd (PMRMB) currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 85% of crude and condensate volume processed are from EMEPMI with balance of around 15% from spot purchases.

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

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

Unused Letters of Credit and Outstanding Standby Letters of Credit

The Group has unused letters of credit totaling approximately P28,166 and P33,193 as of June 30, 2019 and December 31, 2018, respectively.

Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third-party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil (IFO), sank 13 nautical miles southwest of Guimaras,

an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

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

Other Proceedings

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

15. Events After the Reporting Period

- a. On March 12, 2019, the BOD of the Parent Company approved the redemption of the 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019 and redemption pay-out date of November 4, 2019 (with November 3, 2019 falling on a Sunday).
- b. On July 10, 2019, the Parent Company made its final drawdown of US\$264 million from the US\$800 million term loan facility. Proceeds were used to refinance the Parent Company's outstanding peso-denominated short-term debts.
- c. On July 18, 2019, the Parent Company paid distributions amounting to US\$11.500 million (P838) to the holders of SPCS.
- d. On August 6, 2019, the BOD of the Parent Company approved cash dividends for Series 2 and Series 3 Preferred Shareholders with the following details:

Type	Per Share	Date of Record	Date of Payment
Series 2A	15.75000	October 11, 2019	November 4, 2019 (with November 3, 2019 falling on a Sunday)
Series 2B	17.14575	October 11, 2019	November 4, 2019 (with November 3, 2019 falling on a Sunday)
Series 3A	17.17825	September 2, 2019	September 25, 2019
Series 3B	17.84575	September 2, 2019	September 25, 2019

16. Other Matters

a. Lease Agreements with PNOC

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

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

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

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

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial tentatively scheduled on August 9, 2019. The Parent Company also filed a motion for summary judgment on May 17, 2019, which remains pending to date.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2019.

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

Gross Domestic Product (GDP)

GDP growth decelerated to 5.6% in 1Q 2019, the slowest in the last 16 quarters. The slowdown was mainly due to delay in budget approval, thereby dampening government expenditure.

Economic growth (in percentage)	1Q 2017	1Q 2018	1Q 2019
GDP	6.4	6.5	5.6
<i>By Industry</i>			
Agriculture	4.9	1.1	0.8
Industry	6.2	7.7	4.4
Services	6.7	6.7	7.0
<i>By Expenditure</i>			
Household Consumption	5.9	5.6	6.3
Government Consumption	(0.6)	13.6	7.4
Capital Formation	12.2	10.3	6.8
Exports	17.4	10.3	5.8
Imports	18.8	11.3	8.3

Growth on the supply side was underpinned by strong Services sector. The slump in Industry sector growth, however, was due to the slowdown in private sector construction. Government reforms to reduce the cost of doing business should attract foreign investments in both Services and Industry sectors. Meanwhile, agriculture growth was almost flat at 0.8%.

Growth on the demand side was mainly driven by Household Consumption, amid softer inflation. Capital formation also recorded strong growth on the back of the government's "Build Build Build" infrastructure program. On the other hand, growth in Exports was more than offset by strong Imports due to increased requirement for construction materials and robust domestic demand.

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

91-day T-Bill rates averaged 5.17% in 2Q 2019, higher compared to 3.40% in the same period last year. Bangko Sentral ng Pilipinas (BSP) increased its policy interest rates by 50 bps in 2Q 2018, to help address accelerated inflation. Since then, BSP has implemented additional rate hikes totaling 100 bps to reach current level of 4.5%. The policy rates set by BSP are used by financial institutions as benchmark in setting deposit and loan rates.

Peso-Dollar Exchange Rate

The peso averaged P52.20/\$ in 1H 2019, almost flat with the P52.0/\$ average in the same period last year, but stronger than P53.36/\$ in 2H 2018. Moderate inflation and improving trade balance have allowed peso to recover from weakness in the latter part of 2018.

Inflation

The rate of increase in prices of commodities and services decelerated to 3.4% in 1H 2019, from 4.3% in the same period last year. Government measures to address supply concerns on rice and other food has helped modulate food prices. Prices of alcoholic beverages, tobacco and transportation also supported the slowdown in inflation.

Industry Oil Demand

Oil demand¹ grew by 1.9% to 155,177 MB in 2018 from 152,260 MB in 2017. The slow growth was mainly due to higher prices from additional excise taxes, elevated global crude prices and peso depreciation. Moreover, year-on-year automotive vehicle sales contracted by 16%. Fuel consumption for power generation declined with shift to cheaper sources of energy like coal, geothermal, hydro, solar and wind.

Oil Market

Year-on-year prices of Dubai declined by 3.7% to \$65.4/bbl in 1H 2019 vs. \$68.0/bbl in 1H 2018, on the back of elevated US Output. Cracks are generally weaker across all products due to supply glut, and lackluster demand growth.

Existing or Probable Government Regulations

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

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

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.

¹ Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, and Asphalt. FY 2018 is latest published data.

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

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

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

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

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

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

Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (PCC) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation.

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

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

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

PETRON CORPORATION AND SUBSIDIARIES

RECEIVABLES

As of June 30, 2019

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	P31,653
Accounts Receivable – Non-Trade	13,853
<hr/>	
Total Accounts Receivable - Net	P45,506

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P31,173
	31 – 60 days	122
	61 – 90 days	137
	Over 90 days	947
<hr/>		
Total		32,379
Allowance for doubtful accounts		(726)
<hr/>		
Accounts Receivable – Trade		P31,653

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

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

Financial Performance

1H 2019 vs 1H 2018

Amidst the slump in regional product cracks, Petron Corporation reported a consolidated net income of **₱ 2.60 billion** for the first half (1H) of 2019, 72% lower than the **₱ 9.5 billion** profit posted in the same period last year. Bulk of its income was generated by the Malaysian operations.

(In Million Pesos)	2019	2018	Variance- Fav (Unfav)	
			Amt	%
Sales	254,807	273,498	(18,691)	(7)
Cost of Goods Sold	237,506	250,322	12,816	5
Gross Margin	17,301	23,176	5,875	25
Selling and Administrative Expenses	7,514	7,614	100	1
Non-operating Charges	6,526	3,556	(2,970)	(84)
Net Income	2,620	9,502	(6,882)	(72)
EBITDA	15,893	21,515	(5,622)	(26)
Sales Volume (MB)	51,870	54,378	(2,508)	(5)
Earnings per Share (₱)	0.11	0.71	(0.60)	(84)
Return on Sales (%)	1.0	3.5	(2.4)	(70)

Earnings before interest, taxes, depreciation and amortization fell 26% to **₱ 15.89 billion** while earnings per share dropped to **₱ 0.11** from previous year's **₱ 0.71**.

Factors that contributed to the first half performance compared to the same period in 2018 were the following:

- ◆ **Consolidated Sales volume** decreased to **51.9 million barrels (MMB)** from previous year's 54.4 MMB as the total plant shutdown of the Company's Bataan refinery since April 22 earthquake, seven days ahead of its scheduled maintenance turnaround, resulted in lower exports of Gasoline, Petrochemicals and Naphtha. Retail business also dropped due to intense competition with white stations with the implementation of the second tranche of the TRAIN law. These were partly countered by the 4% growth in Malaysian operations particularly Retail's gasoline and diesel volumes with the increase in number of service stations and aggressive marketing campaigns.
- ◆ **Net sales** weakened by 7% or **₱ 18.69 billion** to **₱ 254.81 billion** brought about by the drop in volume in the Philippines and lower average selling price in Malaysia. The decrease in average selling price was due to lower reference MOPS prices in the region partly offset by higher excise taxes.
- ◆ Similarly, **Cost of Goods Sold (CGS)** decreased by 5% to **₱ 237.51 billion** from last year's **₱ 250.32 billion** with the decline in Philippine's volume and lower cost in Malaysia. In the Philippines, the impact of the 4% decline in average price of reference crude Dubai (US\$65.45/bbl – 1H'19 vs. US\$67.99/bbl – 1H'18) was negated by the increase in excise tax. **Gross margin** dropped with the deterioration in average product cracks and lower volume sold.

- ◆ **Selling and Administrative Expenses (OPEX)** slightly went down to **₱ 7.51 billion** as the decrease in LPG cylinder purchases and reduced marketing and business expenses were offset by the increases in terminalling and storage fees, and service stations related expenses.
- ◆ Meanwhile, **Net financing costs and other charges** surged to **₱ 6.53 billion** from ₱ 3.56 billion level last year prompted by the increase in average borrowing rate and additional loans, aggravated by the unrealized commodity hedging losses booked this semester compared to gains in 2018.
- ◆ **Income tax expense** of **₱ 641 million** was significantly lower than last year's **₱ 2.50 billion** primarily due to lower pre-tax income.

1H 2018 vs 1H 2017

For the first half of 2018, Petron Corporation's consolidated net income reached **₱ 9.50 billion**, 16% higher than last year's ₱ 8.21 billion profit due to higher production yield at the Company's Bataan refinery and continued focus in more profitable market segments amid sustained marketing campaign and initiatives.

(In Million Pesos)	2018	2017	Variance- Fav	
			(Unfav)	
			Amt	%
Sales	273,498	206,958	66,540	32
Cost of Goods Sold	250,322	185,889	(64,433)	(35)
Gross Margin	23,176	21,069	2,107	10
Selling and Administrative Expenses	7,614	6,514	(1,100)	(17)
Non-operating Charges	3,556	3,576	(20)	(1)
Net Income	9,502	8,214	1,288	16
EBITDA	21,515	20,585	930	5
Sales Volume (MB)	54,378	52,850	1,528	3
Earnings per Share (₱)	0.71	0.56	0.15	27
Return on Sales (%)	3.5	4.0	(0.5)	(12)

Meanwhile, **Earnings before interest, taxes, depreciation and amortization** went up by 5% to ₱ 21.51 billion while **earnings per share** grew to **₱ 0.71** from ₱ 0.56 in previous year.

The notable factors to this year's first half performance as against same period last year were the following:

- ◆ **Consolidated Sales volume** increased to **54.4 million barrels (MMB)** from previous year's 52.9 MMB. Domestic sales volume grew by 2% traced to higher gasoline and jet A-1 sales largely from solicitation of new accounts and higher liftings from existing customers, tempered by lower Diesel sales to less profitable segments affected by aggressive pricing of competitors. In the Malaysian market, volume growth of 7% came from Retail sales of gasoline and diesel with its continuing network expansion program and aggressive marketing initiatives, as well as higher LPG sales.
- ◆ **Net sales** surged by 32% or ₱ 66.54 billion to **₱ 273.50 billion** primarily due to higher selling prices brought about by sustained hike in regional product prices and the ₱ 2.05 average depreciation of Philippine peso versus the US dollar, boosted by incremental sales volume.

- ◆ **Cost of Goods Sold (CGS)** increased by 35% to **₱ 250.32 billion** from last year's ₱ 185.89 billion mainly attributed to the more expensive cost of crude in the region. In the first semester of 2018, reference crude Dubai averaged US\$68/bbl, 32% higher compared to US\$51/bbl during same period in 2017, coupled by the depreciation of Philippine peso vs. the US dollar. While gross margin rose by ₱ 2.1 billion, gross profit rate deteriorated to 8.5% from 10.2% last year as the increase in cost outpaced improvement in revenues.
- ◆ **Selling and Administrative Expenses (OPEX)** jumped 17% from ₱ 6.51 billion to **₱ 7.61 billion** owing to the increases in terminalling fees, LPG cylinder purchases and maintenance and repairs of existing service stations (SS), coupled by the depreciation and rent of additional SS.
- ◆ **Net Financing Costs and Other Charges** slightly declined by 1% to **₱ 3.56 billion** from ₱ 3.58 billion last year due to the absence of debt issue cost written-off related to long term USD loan pre-terminated in 2017 and higher marked-to-market (MTM) commodity hedging gain and interest income, partly offset by lower gain on disposal of SS affected by the projects of the Malaysian government.
- ◆ **Income tax expense** declined to **₱ 2.50 billion** from ₱ 2.77 billion in the same period last year traced to higher income tax holiday from RMP2 project.

Financial Position

June 30, 2019 vs December 31, 2018

By the end of the first semester of 2019, **consolidated assets** of Petron Corporation and its Subsidiaries stood at **₱ 383.91 billion**, 7% or ₱ 25.75 billion higher than end-2018 level of ₱ 358.15 billion, traced mainly to higher cash and cash equivalents and the impact of the adoption of PFRS 16 (Leases), partly countered by the decrease in other current assets.

Cash and cash equivalents rose to **₱ 39.69 billion** primarily from funds generated from operations, issuance of preferred shares, as well as the timing difference in the settlement of outstanding liabilities, reduced by the spending for capital projects and payment loans, cash dividends and distributions.

Financial assets at fair value slid to **₱ 855 million** from ₱ 1.13 billion on account of lower marked-to-market (MTM) gain on outstanding commodity hedges.

Trade and other receivables - net went up to **₱ 45.51 billion** or by 7% from ₱ 42.50 billion owing largely to higher prices of fuel and the incremental excise tax, partly offset by the decrease in Petron Malaysia's (PM) outstanding claims from government.

Inventories amounted to **₱ 59.42 billion**, 7% or ₱ 4.45 billion lower than end 2018 level of ₱ 63.87 billion due to reduced crude volume with the Refinery on total plant shutdown since the April 22 earthquake.

Other current assets dropped by 35% to **₱ 24.05 billion** from ₱ 37.08 billion due to PM's full collection of goods and service tax claims from Malaysian government, coupled by lower input VAT and other prepaid taxes.

The adoption of PFRS 16 resulted in the recognition of **right-of-use assets** of **₱ 6.42 billion**, increased **investment property** from ₱ 16.54 billion to **₱ 29.59 billion**, reclassification of prepaid rent of qualified contracts reflected in the 37% drop of **other noncurrent assets-net** from ₱ 6.49 billion to **₱ 4.08 billion** and set-up of lease liabilities – current and noncurrent totaling **₱ 15.73 billion**.

Deferred tax assets – net declined by 13% to **₱ 223 million** owing to the availment of Net Operating Loss Carry-Over (NOLCO) of a Malaysian subsidiary.

Short-term loans declined to **₱ 66.42 billion** from ₱ 83.00 billion due to the Parent Company's net payment and PM's full settlement during the period.

Liabilities for crude oil and petroleum products went up by 11% from ₱ 25.99 billion to **₱ 28.93 billion** attributed to higher cost of outstanding finished products importations.

Trade and other payables dipped 13% from ₱ 28.47 billion to **₱ 24.80 billion** principally due to lower liabilities to vendors.

Derivative liabilities increased by 13% to **₱ 692 million** from ₱ 614 million mainly from additional derivative instruments partly offset by lower MTM losses on outstanding currency hedges.

Income tax payable increased to **₱ 278 million** from ₱ 146 million brought about by higher tax liabilities of PM.

Long-term debt (including current portion) increased to **₱ 127.75 billion** from end-2018's balance of ₱ 118.0 billion as a result of the Parent Company's availment of US\$536 million loan, reduced by the prepayment of existing peso and dollar loans.

Deferred tax liability – net decreased from ₱ 8.45 billion to **₱ 7.45 billion** largely due to the recognition of NOLCO and MCIT by the Parent Company.

Other noncurrent liabilities stood at **₱ 1.57 billion**, 23% higher than end-2018 level traced to premium costs and MTM loss of additional derivative instruments and higher LPG cylinder deposit.

The issuance of ₱ 20 billion series 3 preferred shares gave rise to the increase in **additional paid-in capital** from ₱ 19.65 billion to **₱ 37.51 billion** and reduction in negative balance of **treasury stock** from ₱ 10.0 billion to **₱ 8.0 billion**.

The negative balance of **Equity reserves** amounted to **₱ 12.12 billion** up by 9% from ₱ 11.09 billion due to the currency translation losses on investments in foreign operations brought about by the appreciation of the Philippine peso versus the US dollar.

June 30, 2018 vs December 31, 2017

The **consolidated assets** of Petron Corporation and Subsidiaries as of June 30, 2018 stood at **₱ 368.85 billion**, 9% or ₱ 30.82 billion more than end-December 2017 balance of ₱ 338.03 billion mainly due to the increases in inventories, trade and other receivables as well as cash and cash equivalents.

Cash and cash equivalents increased by ₱ 5.84 billion to **₱ 22.86 billion** mainly from funds generated by operations, net proceeds from loans and issuance of the Senior Perpetual Capital Securities (SPCS), reduced by the partial redemption of the existing Undated Subordinated Capital Securities (USCS) and the increase in working capital requirements and payments of interest and taxes.

Financial assets at fair value through profit or loss soared to **₱ 862 million** from ₱ 336 million on account of higher MTM gains on outstanding commodity and currency hedging transactions.

Financial assets at fair value through other comprehensive income (current and noncurrent) went down to **₱ 351 million** from ₱ 531 million due to disposal of corporate bonds and government securities.

Trade and other receivables – net surged to **₱ 44.98 billion** from end-2017 level of ₱ 38.16 billion reflecting the increase in fuel prices, taxes and receivables from PM’s government subsidy.

Inventories – net significantly grew to **₱ 72.76 billion** from ₱ 56.60 billion at end-2017 driven by higher volume and cost of crude oil and finished products as well as reversal of provision for obsolescence.

Goodwill – net generated from the business acquisition of PM rose to **₱ 8.89 billion** from ₱ 8.28 billion traced to currency translation gain with the appreciation of the US dollar versus the Philippine Peso.

Short-term loans increased to **₱ 86.05 billion** from end-2017 balance of ₱ 69.58 billion due to net availment for working capital and general corporate requirements.

Trade and other payables decreased by 11% from ₱ 11.60 billion to **₱ 10.36 billion** mainly due to settlement of various liabilities to contractors and vendors.

Derivative liabilities dropped from ₱ 1.79 billion to **₱ 0.54 billion** attributed to lower MTM losses on outstanding commodity and currency hedges.

Income tax payable increased from ₱ 808 million to **₱ 1.07 billion** arising from PM and PSTPL’s higher taxable income.

Retirement benefits liability declined to **₱ 4.59 billion** from ₱ 4.89 billion due to contributions to the retirement fund net of accrual of the employee retirement expenses during the period.

Deferred tax liabilities - net rose by 9% from ₱ 7.40 billion to **₱ 8.03 billion** brought about by the temporary differences arising from the accelerated depreciation method for tax reporting, MTM hedging gain versus loss as of end 2017, partially offset by MTM foreign exchange loss from gain as of end 2017.

Other noncurrent liabilities amounted to **₱ 1.43 billion**, up by 38% from end-2017 level due to higher LPG cylinder deposit.

Capital Securities moved up by 28% to **₱ 39.06 billion** traced to the issuance of the US\$500 million SPCS partly countered by the US\$402 million redemption of the USCS.

Retained earnings (attributable to the Parent Company) grew by 11% or ₱ 5.23 billion to **₱ 54.38 billion** emanating from the ₱ 8.89 billion share in net profit recorded during the period, partly reduced by the cash dividends declared and distributions paid of ₱ 3.70 billion.

The negative balance of **Equity reserves** increased by 45% or ₱ 2.31 billion to **₱ 7.48 billion** due to foreign exchange impact on redemption of USCS tempered by the currency translation gains on investments in foreign subsidiaries brought about by the strengthening of the US dollar versus the Philippine peso.

Non-controlling interests posted a 13% hike to **₱ 6.73 billion** from ₱ 5.96 billion as of December 31, 2017 due to the minority shareholders’ share in net income and currency translation gains, partly reduced by cash dividends.

Cash Flows

1H 2019 vs 1H 2018

Cash and cash equivalents aggregated to **₱ 39.69 billion** as of end-June 2019. Cash generated from operations of **₱ 27.55 billion** along with the proceeds from issuance of **₱ 20.0 billion** preferred shares were used to partially settle short-term and long term loans (**₱ 5.35 billion**), finance various capital spending at the refinery, terminals and service stations (**₱ 9.97 billion**), pay interest and taxes (**₱ 6.98 billion**) as well as dividends and distributions (**₱ 2.09 billion**).

In Million Pesos	June 30, 2019	June 30, 2018	Change
Operating inflows (outflows)	20,924	(5,326)	26,250
Investing outflows	(10,376)	(4,368)	(6,008)
Financing inflows	12,415	14,567	(2,152)

1H 2018 vs 1H 2017

As of June 30, 2018, cash and cash equivalents increased by 34% to **₱ 22.86 billion**. During the first semester of 2018, cash generated from operations of **₱ 24.87 billion** as well as proceeds from net availment of short-term loans and net issuance of Capital securities were used to fund the increase in working capital requirements (**₱ 25.08 billion**), payments of interest and taxes (**₱ 4.62 billion**), investments in various capital projects in the refinery, terminals and service stations (**₱ 4.58 billion**) and in payment for cash dividends and distributions of **₱ 3.90 billion**.

Discussion of the Company's key performance indicators:

Ratio	June 30, 2019	December 31, 2018
Current Ratio	1.3	1.0
Debt to Equity Ratio	1.9	2.3
Return on Equity (%)	0.2	7.6
Interest Rate Coverage Ratio	1.5	2.1
Assets to Equity Ratio	3.7	4.2

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

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

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

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

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

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

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

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

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

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

PART II – OTHER INFORMATION

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

NONE.

SIGNATURES

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

Registrant: **PETRON CORPORATION**

Signature and Title: 

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

Date: August 14, 2019

Principal Financial/Accounting Officer/Controller

Signature and Title: 

DENNIS S. JANSON
Assistant Vice President - Controllers


Date: August 14, 2019

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	June 30, 2019	December 31, 2018
Liquidity			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.27	1.04
Solvency			
b) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}}{\text{Total Equity}}$	1.86	2.33
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	3.69	4.16
Profitability			
d) Return on Average Equity ^a	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	0.20%	7.61%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other FinancingCharges}}$	1.49	2.08

^a *trailing 12 months net income*