

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended  
Mar 31, 2020
2. SEC Identification Number  
31171
3. BIR Tax Identification No.  
000-168-801
4. Exact name of issuer as specified in its charter  
PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization  
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City  
Postal Code  
1550
8. Issuer's telephone number, including area code  
(63 2) 8884-9200
9. Former name or former address, and former fiscal year, if changed since last report  
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 2A (PRF2A)	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 DEC 31, 2019 (IN MIL PESO-CONSO)	302,405

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

Yes            No

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

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

12. Indicate by check mark whether the registrant:

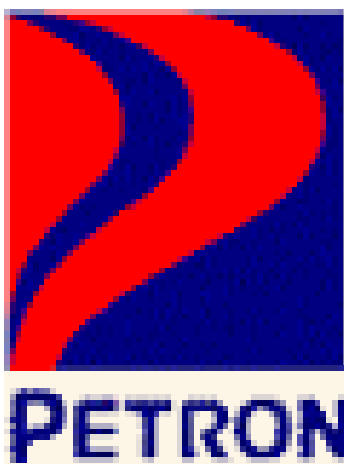
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes            No

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

Yes            No

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



**Petron Corporation**  
**PCOR**

**PSE Disclosure Form 17-2 - Quarterly Report**  
**References: SRC Rule 17 and**  
**Sections 17.2 and 17.8 of the Revised Disclosure Rules**

For the period ended	Mar 31, 2020
Currency (indicate units, if applicable)	Peso (In Millions)

### Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Mar 31, 2020	Dec 31, 2019
Current Assets	155,451	179,488
Total Assets	368,120	394,835
Current Liabilities	144,872	158,374
Total Liabilities	285,072	302,405
Retained Earnings/(Deficit)	38,725	45,510
Stockholders' Equity	83,048	92,430
Stockholders' Equity - Parent	76,859	85,657
Book Value per Share	5.76	6.57

### Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	104,975	124,945	104,975	124,945
Gross Expense	109,384	120,080	109,384	120,080
Non-Operating Income	391	242	391	242
Non-Operating Expense	2,967	3,394	2,967	3,394
Income/(Loss) Before Tax	-6,985	1,713	-6,985	1,713
Income Tax Expense	-2,108	410	-2,108	410
Net Income/(Loss) After Tax	-4,877	1,303	-4,877	1,303
Net Income Attributable to Parent Equity Holder	-4,614	1,105	-4,614	1,105
Earnings/(Loss) Per Share (Basic)	-0.58	0.05	-0.58	0.05
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	-0.78	-0.06
Earnings/(Loss) Per Share (Diluted)	-	-

### Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the 1st Quarter 2020 of the Company.

**Filed on behalf by:**

<b>Name</b>	Jhoanna Jasmine Javier-Elacio
<b>Designation</b>	Legal Manager and Assistant Corporate Secretary





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

Yes [ X ]      No [ ]

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

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

12. Indicate by check mark whether the Registrant:

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

Yes [ X ]      No [ ]

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

Yes [ X ]      No [ ]

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

	<i>Note</i>	<b>Unaudited Marh 31 2020</b>	Audited December 31 2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	<i>9, 10</i>	<b>P28,562</b>	P34,218
Financial assets at fair value	<i>9, 10</i>	<b>2,207</b>	864
Investments in debt instruments	<i>9, 10</i>	<b>149</b>	109
Trade and other receivables - net	<i>7, 9, 10</i>	<b>41,361</b>	44,657
Inventories		<b>53,623</b>	72,210
Other current assets	<i>7</i>	<b>29,549</b>	27,430
<b>Total Current Assets</b>		<b>155,451</b>	179,488
<b>Noncurrent Assets</b>			
Investments in debt instruments	<i>9, 10</i>	<b>299</b>	311
Property, plant and equipment - net	<i>5, 6</i>	<b>166,941</b>	167,941
Right-of-use assets - net		<b>5,329</b>	5,509
Investment property - net		<b>28,928</b>	29,935
Deferred tax assets - net		<b>331</b>	262
Goodwill - net		<b>7,896</b>	8,319
Other noncurrent assets - net	<i>9, 10</i>	<b>2,945</b>	3,070
<b>Total Noncurrent Assets</b>		<b>212,669</b>	215,347
		<b>P368,120</b>	P394,835
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	<i>8, 9, 10</i>	<b>P80,189</b>	P71,090
Liabilities for crude oil and petroleum products	<i>9, 10</i>	<b>18,730</b>	39,362
Trade and other payables	<i>7, 9, 10</i>	<b>25,832</b>	28,741
Lease liabilities – current portion		<b>1,142</b>	1,295
Derivative liabilities	<i>9, 10</i>	<b>1,923</b>	738
Income tax payable		<b>146</b>	267
Current portion of long-term debt - net	<i>9, 10</i>	<b>16,910</b>	16,881
<b>Total Current Liabilities</b>		<b>144,872</b>	158,374

*Forward*

	<i>Note</i>	<b>Unaudited March 31 2020</b>	Audited December 31 2019
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion and debt issue costs	9, 10, 11	<b>P114,938</b>	P116,196
Retirement benefits liability		<b>3,499</b>	3,565
Deferred tax liabilities - net		<b>4,243</b>	6,348
Lease liabilities - net of current portion	9, 10	<b>13,938</b>	14,454
Asset retirement obligation		<b>1,739</b>	1,720
Other noncurrent liabilities	9, 10	<b>1,843</b>	1,748
<b>Total Noncurrent Liabilities</b>		<b>140,200</b>	144,031
<b>Total Liabilities</b>		<b>285,072</b>	302,405
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		<b>9,485</b>	9,485
Additional paid-in capital	11	<b>37,500</b>	37,500
Capital securities		<b>25,183</b>	25,183
Retained earnings		<b>38,725</b>	45,510
Equity reserves		<b>(18,912)</b>	(16,899)
Treasury stock		<b>(15,122)</b>	(15,122)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>76,859</b>	85,657
<b>Non-controlling Interests</b>		<b>6,189</b>	6,773
<b>Total Equity</b>		<b>83,048</b>	92,430
		<b>P368,120</b>	P394,835

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

Certified by:

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

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

(Amounts in Million Pesos, Except Per Share Data)

		<b>For the Three Months Ended March 31</b>	
	<i>Note</i>	<b>2020</b>	2019
<b>SALES</b>	5	<b>P104,623</b>	P124,558
<b>COST OF GOODS SOLD</b>		<b>105,566</b>	116,083
<b>GROSS PROFIT (LOSS)</b>		<b>(943)</b>	8,475
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>		<b>(3,818)</b>	(3,997)
<b>OTHER OPERATING INCOME</b>		<b>352</b>	387
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	5	<b>(2,967)</b>	(3,184)
<b>INTEREST INCOME</b>	5	<b>199</b>	242
<b>OTHER INCOME (LOSS) - Net</b>		<b>192</b>	(210)
		<b>(6,042)</b>	(6,762)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>(6,985)</b>	1,713
<b>INCOME TAX EXPENSE (BENEFIT)</b>	5	<b>(2,108)</b>	410
<b>NET INCOME (LOSS)</b>		<b>(P4,877)</b>	P1,303
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>(P4,614)</b>	P1,105
Non-controlling interests		<b>(263)</b>	198
		<b>(P4,877)</b>	P1,303
<b>BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	12	<b>(P0.58)</b>	P0.05

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

Certified by:

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

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

	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2020</b>	2019
<b>NET INCOME (LOSS)</b>	<b>(P4,877)</b>	P1,303
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>		
Net income (loss) on cash flow hedges	<b>38</b>	(60)
Exchange differences on translation of foreign operations	<b>(2,360)</b>	625
Unrealized fair value gain (loss) on investments in debt instruments at FVOCI	<b>(1)</b>	6
Share in other comprehensive loss of a joint venture	<b>1</b>	-
Income tax expense (benefit)	<b>(12)</b>	16
<b>OTHER COMPREHENSIVE INCOME (LOSS) -</b>		
Net of tax	<b>(2,334)</b>	587
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD - Net of tax</b>	<b>(P7,211)</b>	P1,890
<b>Attributable to:</b>		
Equity holders of the Parent Company	<b>(P6,627)</b>	P1,592
Non-controlling interests	<b>(584)</b>	298
	<b>(P7,211)</b>	P1,890

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

Certified by:

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

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

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Capital Securities	Retained Earnings		Equity Reserves			Total		
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
<b>As of January 1, 2020 (Audited)</b>		<b>P9,485</b>	<b>P37,500</b>	<b>P25,183</b>	<b>P15,000</b>	<b>P30,510</b>	<b>(P4,704)</b>	<b>(P12,195)</b>	<b>(P15,122)</b>	<b>P85,657</b>	<b>P6,773</b>	<b>P92,430</b>
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	26	-	26	-	26
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Share in other comprehensive income of a joint venture		-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(2,039)	-	(2,039)	(321)	(2,360)
Other comprehensive loss for the period		-	-	-	-	-	-	(2,013)	-	(2,013)	(321)	(2,334)
Net loss for the period		-	-	-	-	(4,614)	-	-	-	(4,614)	(263)	(4,877)
Total comprehensive income (loss) for the period		-	-	-	-	(4,614)	-	(2,013)	-	(6,627)	(584)	(7,211)
Cash dividends	13	-	-	-	-	(1,334)	-	-	-	(1,334)	-	(1,334)
Distributions paid	13	-	-	-	-	(837)	-	-	-	(837)	-	(837)
Transactions with owners		-	-	-	-	(2,171)	-	-	-	(2,171)	-	(2,171)
<b>As of March 31, 2020 (Unaudited)</b>		<b>P9,485</b>	<b>P37,500</b>	<b>P25,183</b>	<b>P15,000</b>	<b>P23,725</b>	<b>(P4,704)</b>	<b>(P14,208)</b>	<b>(P15,122)</b>	<b>P76,859</b>	<b>P6,189</b>	<b>P83,048</b>

Forward

	Equity Attributable to Equity Holders of the Parent Company											
	Note	Retained Earnings					Equity Reserves			Total	Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 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		-	-	-	-	(1,014)	-	-	-	(1,014)	(4)	(1,018)
As of January 1, 2019 (As adjusted)		9,485	19,653	24,881	15,160	33,317	(2,940)	(11,091)	(10,000)	78,465	6,703	85,168
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	(42)	-	(42)	-	(42)
Unrealized fair value gain on investments in debt instruments at FVOCI - net of tax		-	-	-	-	-	-	4	-	4	-	4
Exchange differences on translation of foreign operations		-	-	-	-	-	-	525	-	525	100	625
Other comprehensive income for the period		-	-	-	-	-	-	487	-	487	100	587
Net income for the period		-	-	-	-	1,105	-	-	-	1,105	198	1,303
Total comprehensive income for the period		-	-	-	-	1,105	-	487	-	1,592	298	1,890
Cash dividends	13	-	-	-	-	(1,261)	-	-	-	(1,261)	-	(1,261)
Distributions paid	13	-	-	-	-	(859)	-	-	-	(859)	-	(859)
Transactions with owners		-	-	-	-	(2,120)	-	-	-	(2,120)	-	(2,120)
As of March 31, 2019 (Unaudited)		P9,485	P19,653	P24,881	P15,160	P32,302	(P2,940)	(P10,604)	(P10,000)	P77,937	P7,001	P84,938

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

Certified by:

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

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

		<b>For the Three Months Ended March 31</b>	
	<i>Note</i>	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax		<b>(P6,985)</b>	P1,713
Adjustments for:			
Depreciation and amortization	5	<b>2,736</b>	3,086
Interest expense and other financing charges	5	<b>2,967</b>	3,184
Retirement benefits costs		<b>31</b>	28
Unrealized foreign exchange (gains) losses - net		<b>(47)</b>	88
Interest income	5	<b>(199)</b>	(242)
Other gains		<b>(558)</b>	(866)
Operating income (loss) before working capital changes		<b>(2,055)</b>	6,991
Changes in noncash assets, certain current liabilities and others		<b>(4,061)</b>	15,041
Cash generated from (used in) operations		<b>(6,116)</b>	22,032
Contributions to retirement fund		<b>(50)</b>	-
Interest paid		<b>(3,089)</b>	(2,941)
Income taxes paid		<b>(112)</b>	(266)
Interest received		<b>287</b>	119
Net cash flows provided by (used in) operating activities		<b>(9,080)</b>	18,944
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	6	<b>(2,124)</b>	(4,407)
Proceeds from sale of property and equipment		<b>4</b>	2
Additions to investment property		<b>(367)</b>	(87)
Proceeds from sale of investment property		<b>-</b>	140
Increase in other noncurrent assets		<b>(45)</b>	(383)
Net cash flows used in investing activities		<b>(2,532)</b>	(4,735)

*Forward*

**For the Three Months Ended  
March 31**

	2020	2019
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of loans	8	P74,260
Payments of:		P93,337
Loans	8, 11	(66,472)
Lease liabilities		(587)
Cash dividends and distributions	13	(93,729)
Net cash flows provided by (used in) financing activities	<b>5,939</b>	(1,049)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>17</b>	(30)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(5,656)</b>	12,738
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>34,218</b>	17,405
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P28,562</b>	P30,143

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

Certified by:

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



## **PETRON CORPORATION AND SUBSIDIARIES**

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

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

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

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

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

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

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

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

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

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

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#### **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, 2019. 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, 2019. 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.

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### 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, 2019. 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, 2020.

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

#### 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 2020*

The Group has adopted the following new or revised standards, amendments to standards and interpretations starting January 1, 2020 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:

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

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

- *Definition of a Business (Amendments to PFRS 3 Business Combinations)*. The amendments narrowed and clarified the definition of a business. 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.
- *Definition of Material (Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)* 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 and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

#### 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, 2020 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 2023*

- 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 *Financial Instruments* 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 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.

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#### **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, 2019.

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## 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, Hongkong, Indonesia, Singapore, Taiwan and Vietnam.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.
- g. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

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

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

### Segment Assets and Liabilities

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

### Inter-segment Transactions

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

### Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended March 31, 2020, December 31, 2019 and March 31, 2019:

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

\*excluding deferred tax assets and liabilities

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

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
<b>December 31, 2019</b>						
Revenue:						
External sales	P513,401	P -	P -	P961	P -	P514,362
Inter-segment sales	228,613	102	1,505	-	(230,220)	-
Operating income	15,579	78	271	132	139	16,199
Net income	5,017	70	140	137	(3,061)	2,303
Assets and liabilities:						
Segment assets*	444,239	4,355	9,901	673	(64,595)	394,573
Segment liabilities*	319,412	2,981	5,046	136	(31,518)	296,057
Other segment information:						
Property, plant and equipment - net	167,260	-	-	123	558	167,941
Depreciation and amortization	13,326	-	9	(92)	2	13,245
Interest expense	13,647	-	322	2	(481)	13,490
Interest income	1,388	44	240	15	(347)	1,340
Income tax expense	1,346	26	49	15	(2)	1,434

\*excluding deferred tax assets and liabilities

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

	Petroleum	Insurance	Leasing**	Marketing	Elimination/ Others**	Total
March 31, 2019						
Revenue:						
External sales	P123,964	P -	P302	P230	P62	P124,558
Inter-segment sales	55,265	31	176	-	(55,472)	-
Operating income	4,659	25	135	30	16	4,865
Net income	1,234	31	11	36	(9)	1,303
Assets and liabilities:						
Segment assets*	429,218	2,892	9,534	657	(60,126)	382,175
Segment liabilities*	310,328	1,668	5,191	120	(27,676)	289,631
Other segment information:						
Property, plant and equipment - net	162,957	-	-	133	434	163,524
Depreciation and amortization	3,137	-	-	4	(55)	3,086
Interest expense	3,167	-	46	-	(29)	3,184
Interest income	252	11	3	5	(29)	242
Income tax expense	320	6	81	4	(1)	410

\*excluding deferred tax assets and liabilities

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

Inter-segment sales transactions amounted to P31,536, P230,220 and P55,472 for the periods ended March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

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

	Retail	Lube	Gasul	Industrial	Others	Total
<b>March 31, 2020</b>						
Revenue	<b>P48,289</b>	<b>P935</b>	<b>P6,471</b>	<b>P25,773</b>	<b>P22,565</b>	<b>P104,033</b>
Property, plant and equipment	<b>9,788</b>	<b>44</b>	<b>282</b>	<b>28</b>	<b>156,104</b>	<b>166,246</b>
Capital expenditures	<b>2,299</b>	<b>3</b>	<b>8</b>	<b>-</b>	<b>17,131</b>	<b>19,441</b>
December 31, 2019						
Revenue	P249,210	P4,474	P25,745	P125,314	P108,658	P513,401
Property, plant and equipment	9,949	40	303	100	156,868	167,260
Capital expenditures	1,892	2	5	-	14,951	16,850
March 31, 2019						
Revenue	P58,829	P1,213	P6,858	P29,736	P27,328	P123,964
Property, plant and equipment	10,644	76	495	87	151,655	162,957
Capital expenditures	3,830	6	22	6	13,748	17,612

### Geographical Segments

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

	March 31, 2020	December 31, 2019	March 31, 2019
Local	<b>P299,868</b>	P323,518	P311,800
International	<b>67,921</b>	71,055	70,375
	<b>P367,789</b>	P394,573	P382,175

### Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended March 31, 2020, December 31, 2019 and March 31, 2019:

	<b>Petroleum</b>	<b>Insurance</b>	<b>Leasing**</b>	<b>Marketing</b>	<b>Elimination/ Others**</b>	<b>Total</b>
<b>March 31, 2020</b>						
Local	<b>P61,212</b>	<b>P6</b>	<b>P383</b>	<b>P225</b>	<b>(P185)</b>	<b>P61,641</b>
Export/international	<b>74,232</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>(31,264)</b>	<b>42,982</b>
December 31, 2019						
Local	P301,148	P60	P1,506	P961	(P2,230)	P301,445
Export/international	440,865	42	-	-	(227,990)	212,917
March 31, 2019						
Local	P72,676	P25	P478	P230	(P297)	P73,112
Export/international	106,553	6	-	-	(55,113)	51,446

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



## 6. Property, Plant and Equipment

The movements and balances as of and for the periods ended March 31, 2020 and December 31, 2019 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
<b>Cost:</b>							
January 1, 2019 (Audited)	P20,132	P188,237	P17,808	P5,239	P4,818	P12,328	P248,562
Adjustment due to adoption of PFRS 16	(918)	(1,816)	(176)	-	(262)	-	(3,172)
January 1, 2019 (as adjusted)	19,214	186,421	17,632	5,239	4,556	12,328	245,390
Additions	1,630	6,000	1,769	216	20	10,173	19,808
Disposals/reclassifications	3,099	183	121	243	1,237	(5,471)	(588)
Reclassification to investment property	(844)	-	-	-	(1,275)	-	(2,119)
Currency translation adjustment	(382)	(153)	(242)	(46)	(376)	(158)	(1,357)
December 31, 2019 (Audited)	22,717	192,451	19,280	5,652	4,162	16,872	261,134
<b>Additions</b>	<b>45</b>	<b>75</b>	<b>242</b>	<b>117</b>	<b>-</b>	<b>1,645</b>	<b>2,124</b>
<b>Disposals/reclassifications</b>	<b>67</b>	<b>31</b>	<b>64</b>	<b>(12)</b>	<b>15</b>	<b>(270)</b>	<b>(105)</b>
<b>Currency translation adjustment</b>	<b>(47)</b>	<b>(641)</b>	<b>(479)</b>	<b>(99)</b>	<b>(99)</b>	<b>(475)</b>	<b>(1,840)</b>
<b>March 31, 2020 (Unaudited)</b>	<b>22,782</b>	<b>191,916</b>	<b>19,107</b>	<b>5,658</b>	<b>4,078</b>	<b>17,772</b>	<b>261,313</b>
<b>Accumulated Depreciation and Amortization:</b>							
January 1, 2019 (Audited)	12,827	54,077	12,379	4,204	1,091	-	84,578
Adjustment due to adoption of PFRS 16	(450)	(193)	(63)	-	-	-	(706)
January 1, 2019 (as adjusted)	12,377	53,884	12,316	4,204	1,091	-	83,872
Additions	888	7,755	1,081	520	91	-	10,335
Disposals/reclassifications	(61)	(35)	(442)	(17)	(4)	-	(559)
Reclassification to investment property	126	-	-	-	(18)	-	108
Currency translation adjustment	(125)	(214)	(123)	(35)	(66)	-	(563)
December 31, 2019 (Audited)	13,205	61,390	12,832	4,672	1,094	-	93,193
<b>Additions</b>	<b>221</b>	<b>1,417</b>	<b>267</b>	<b>90</b>	<b>25</b>	<b>-</b>	<b>2,020</b>
<b>Disposals/reclassifications</b>	<b>4</b>	<b>(2)</b>	<b>13</b>	<b>(11)</b>	<b>4</b>	<b>-</b>	<b>8</b>
<b>Currency translation adjustment</b>	<b>(36)</b>	<b>(474)</b>	<b>(261)</b>	<b>(78)</b>	<b>-</b>	<b>-</b>	<b>(849)</b>
<b>March 31, 2020 (Unaudited)</b>	<b>13,394</b>	<b>62,331</b>	<b>12,851</b>	<b>4,673</b>	<b>1,123</b>	<b>-</b>	<b>94,372</b>
<b>Carrying Amount:</b>							
December 31, 2019 (Audited)	P9,512	P131,061	P6,448	P980	P3,068	P16,872	P167,941
<b>March 31, 2020 (Unaudited)</b>	<b>P9,388</b>	<b>P129,585</b>	<b>P6,256</b>	<b>P985</b>	<b>P2,955</b>	<b>P17,772</b>	<b>P166,941</b>

### Capital Commitments

As of March 31, 2020 and December 31, 2019, the Group has outstanding commitments to acquire property, plant and equipment amounting to P15,045 and P20,798, respectively.

## 7. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended March 31, 2020 and December 31, 2019 follow:

	<i>Note</i>	<b>Year</b>	<b>Revenues from Related Parties</b>	<b>Purchases from Related Parties</b>	<b>Amounts Owed by Related Parties</b>	<b>Amounts Owed to Related Parties</b>	<b>Terms</b>	<b>Conditions</b>
Retirement Plan	<i>a</i>	<b>2020</b> 2019	<b>P24</b> 113	<b>P -</b> -	<b>P1,995</b> 1,971	<b>P46</b> -	On demand; long-term; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b, e, g, h</i>	<b>2020</b> 2019	<b>3</b> 13	<b>37</b> 228	<b>8</b> 8	<b>298</b> 95	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b, c, d, g, h, i</i>	<b>2020</b> 2019	<b>1,613</b> 6,246	<b>1,357</b> 4,904	<b>1,601</b> 1,296	<b>2,416</b> 2,015	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c, f, g, h</i>	<b>2020</b> 2019	<b>-</b> -	<b>12</b> 52	<b>1</b> 1	<b>-</b> -	On demand; non-interest bearing	Unsecured no impairment
		<b>2020</b>	<b>P1,640</b>	<b>P1,406</b>	<b>P3,605</b>	<b>P2,760</b>		
		2019	P6,372	P5,184	P3,276	P2,110		

- a. The Parent Company has interest bearing advances to Petron Corporation Employees' Retirement Plan (PCERP), included as part of "Trade and other receivables - net" account in the consolidated interim statements of financial position, for some investment opportunities.
- b. Sales relate to the Parent Company's supply agreements with the Intermediate Parent and various SMC subsidiaries. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- c. Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- d. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,852 square meters with a monthly rental of P6. The lease, which commenced on June 1, 2018, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- f. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services to Petron Fuel International Sdn Bhd (PFISB) and another venturer.
- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2015, the New Ventures Realty Corporation (NVRC) leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.

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## 8. Loans and Borrowings

### Short-term Loans

The movements of short-term loans for three months ended March 31, 2020 follow:

<b>Balance as of January 1, 2020</b>	<b>P71,090</b>
Loan availments	<b>74,260</b>
Loan repayments	<b>(65,061)</b>
Currency translation adjustment	<b>(100)</b>
<b>Balance as of March 31, 2020</b>	<b>P80,189</b>

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 1 to 75 days and annual interest ranging from 1.20% to 6.75% and 2.30% to 8.50% as of and for the periods ended March 31, 2020 and December 31, 2019, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

### Long-term Loans

Certain loan agreements contain, among others, 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 March 31, 2020 and December 31, 2019, the Group has complied with the covenants of its debt agreements.

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## 9. Financial Risk Management Objectives and Policies

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

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

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

### Risk Management Structure

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

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

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

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

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

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

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

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

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

#### Foreign Currency Risk

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

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

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

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

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

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

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

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

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

	March 31, 2020		December 31, 2019	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	427	21,646	461	23,324
Trade and other receivables	193	9,786	219	11,072
Other assets	40	2,016	13	646
	<b>660</b>	<b>33,448</b>	693	35,042
<b>Liabilities</b>				
Short-term loans	175	8,856	32	1,605
Liabilities for crude oil and petroleum products	369	18,702	267	13,505
Long-term debt (including current maturities)	1,454	73,703	1,454	73,638
Other liabilities	386	19,575	485	24,570
	<b>2,384</b>	<b>120,836</b>	2,238	113,318
<b>Net foreign currency -denominated monetary liabilities</b>	<b>(1,724)</b>	<b>(87,388)</b>	(1,545)	(78,276)

The Group incurred net foreign currency exchange gains (losses) amounting to (P215) and P208 for the periods ended March 31, 2020 and 2019, respectively, which were mainly countered by marked-to-market and hedging gains or losses (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
<b>March 31, 2020</b>	<b>50.680</b>
December 31, 2019	50.635
March 31, 2019	52.500

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of March 31, 2020 and December 31, 2019:

<b>March 31, 2020</b>	<b>P1 Decrease in the US dollar Exchange Rate</b>		<b>P1 Increase in the US dollar Exchange Rate</b>	
	<b>Effect on</b>		<b>Effect on</b>	
	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>
Cash and cash equivalents	(P370)	(P316)	P370	P316
Trade and other receivables	(111)	(167)	111	167
Other assets	(23)	(33)	23	33
	<b>(504)</b>	<b>(516)</b>	<b>504</b>	<b>516</b>
Short-term loans	80	151	(80)	(151)
Liabilities for crude oil and petroleum products	172	326	(172)	(326)
Long-term debts (including current maturities)	1,454	1,018	(1,454)	(1,018)
Other liabilities	175	150	(175)	(150)
	<b>1,881</b>	<b>1,645</b>	<b>(1,881)</b>	<b>(1,645)</b>
	<b>P1,377</b>	<b>P1,129</b>	<b>(P1,377)</b>	<b>(P1,129)</b>

<b>December 31, 2019</b>	<b>P1 Decrease in the US dollar Exchange Rate</b>		<b>P1 Increase in the US dollar Exchange Rate</b>	
	<b>Effect on</b>		<b>Effect on</b>	
	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>	<b>Income Before Income Tax</b>	<b>Effect on Equity</b>
Cash and cash equivalents	(P365)	(P351)	P365	P351
Trade and other receivables	(110)	(203)	110	203
Other assets	(8)	(10)	8	10
	<b>(483)</b>	<b>(564)</b>	<b>483</b>	<b>564</b>
Short-term loans	-	32	-	(32)
Liabilities for crude oil and petroleum products	434	571	(434)	(571)
Long-term debts (including current maturities)	1,454	1,018	(1,454)	(1,018)
Other liabilities	374	373	(374)	(373)
	<b>2,262</b>	<b>1,994</b>	<b>(2,262)</b>	<b>(1,994)</b>
	<b>P1,779</b>	<b>P1,430</b>	<b>(P1,779)</b>	<b>(P1,430)</b>

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

#### Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P184 and P736 for the period ended March 31, 2020 and for the year ended December 31, 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

#### *Interest Rate Risk Table*

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

<b>March 31, 2020</b>	<b>&lt;1 Year</b>	<b>1-&lt;2 Years</b>	<b>2-&lt;3 Years</b>	<b>3-&lt;4 Years</b>	<b>4-&lt;5 Years</b>	<b>&gt;5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso denominated	<b>P5,643</b>	<b>P18,643</b>	<b>P4,768</b>	<b>P9,143</b>	<b>P14,271</b>	<b>P6,800</b>	<b>P59,268</b>
Interest rate	<b>5.5% - 5.8%</b>	<b>4.0% - 5.8%</b>	<b>5.5% - 5.8%</b>	<b>4.5% - 5.5%</b>	<b>5.5% - 7.8%</b>	<b>8.1%</b>	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	<b>11,439</b>	<b>26,064</b>	<b>18,824</b>	<b>11,584</b>	<b>5,792</b>	<b>-</b>	<b>73,703</b>
Interest rate*	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>-</b>	
	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>-</b>	
	<b>P17,082</b>	<b>P44,707</b>	<b>P23,592</b>	<b>P20,727</b>	<b>P20,063</b>	<b>P6,800</b>	<b>P132,971</b>

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

<b>December 31, 2019</b>	<b>&lt;1 Year</b>	<b>1-&lt;2 Years</b>	<b>2-&lt;3 Years</b>	<b>3-&lt;4 Years</b>	<b>4-&lt;5 Years</b>	<b>&gt;5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso denominated	<b>P5,643</b>	<b>P18,643</b>	<b>P5,643</b>	<b>P9,143</b>	<b>P14,807</b>	<b>P6,800</b>	<b>P60,679</b>
Interest rate	<b>5.5% - 5.8%</b>	<b>4.0% - 5.8%</b>	<b>5.5% - 5.8%</b>	<b>4.5% - 5.5%</b>	<b>5.5% - 7.8%</b>	<b>8.1%</b>	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	<b>11,429</b>	<b>26,041</b>	<b>18,807</b>	<b>11,574</b>	<b>5,787</b>	<b>-</b>	<b>73,638</b>
Interest rate*	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>1, 3, 6 mos.</b>	<b>-</b>	
	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>Libor + margin</b>	<b>-</b>	
	<b>P17,072</b>	<b>P44,684</b>	<b>P24,450</b>	<b>P20,717</b>	<b>P20,594</b>	<b>P6,800</b>	<b>P134,317</b>

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

#### Credit Risk

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



amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

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

	<b>March 31, 2020</b>	December 31, 2019
Cash in banks and cash equivalents	<b>P28,109</b>	P32,049
Derivative assets	<b>2,137</b>	746
Investments in debt instruments	<b>448</b>	420
Trade and other receivables - net	<b>41,361</b>	44,657
Noncurrent deposits	<b>99</b>	104
	<b>P72,154</b>	P77,976

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

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

*Investments in Debt Instruments*

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

*Trade and Other Receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 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 P8,266 and P7,921 as of March 31, 2020 and December 31, 2019, respectively. These securities may only be called on or applied upon default of customers.

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

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

March 31, 2020						
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	P28,109	P -	P -	P -	P -	P28,109
Trade and other receivables	-	41,361	938	-	-	42,299
Derivative assets not designated as cash flow hedge	-	-	-	1,880	-	1,880
Derivative assets designated as cash flow hedge	-	-	-	-	257	257
Proprietary membership shares	-	-	-	283	-	283
Investments in debt instruments	286	-	-	-	162	448
Long-term receivables	-	-	302	-	-	302
Noncurrent deposits	99	-	-	-	-	99
	<b>P28,494</b>	<b>P41,361</b>	<b>P1,240</b>	<b>P2,163</b>	<b>P419</b>	<b>P73,677</b>

December 31, 2019						
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	P32,049	P -	P -	P -	P -	P32,049
Trade and other receivables	-	44,657	942	-	-	45,599
Derivative assets not designated as cash flow hedge	-	-	-	546	-	546
Derivative assets designated as cash flow hedge	-	-	-	-	200	200
Proprietary membership shares	-	-	-	284	-	284
Investments in debt instruments	257	-	-	-	163	420
Long-term receivables	-	-	318	-	-	318
Noncurrent deposits	104	-	-	-	-	104
	<b>P32,410</b>	<b>P44,657</b>	<b>P1,260</b>	<b>P830</b>	<b>P363</b>	<b>P79,520</b>

### Liquidity Risk

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

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2020 and December 31, 2019.

<b>March 31, 2020</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	<b>P28,562</b>	<b>P28,562</b>	<b>P28,562</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
Trade and other receivables - net	<b>41,361</b>	<b>41,361</b>	<b>41,361</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative assets (including noncurrent portion)	<b>2,137</b>	<b>2,137</b>	<b>1,924</b>	<b>93</b>	<b>120</b>	<b>-</b>
Proprietary membership shares	<b>283</b>	<b>283</b>	<b>283</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments in debt instruments	<b>448</b>	<b>477</b>	<b>163</b>	<b>112</b>	<b>202</b>	<b>-</b>
Noncurrent deposits	<b>99</b>	<b>99</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>96</b>
<b>Financial Liabilities</b>						
Short-term loans	<b>80,189</b>	<b>80,522</b>	<b>80,522</b>	<b>-</b>	<b>-</b>	<b>-</b>
Liabilities for crude oil and petroleum products	<b>18,730</b>	<b>18,730</b>	<b>18,730</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade and other payables*	<b>17,084</b>	<b>17,084</b>	<b>17,084</b>	<b>-</b>	<b>-</b>	<b>-</b>
Derivative liabilities (including noncurrent portion)	<b>2,260</b>	<b>2,260</b>	<b>1,923</b>	<b>234</b>	<b>103</b>	<b>-</b>
Long-term debts (including current maturities)	<b>131,848</b>	<b>147,807</b>	<b>22,166</b>	<b>48,430</b>	<b>70,000</b>	<b>7,211</b>
Lease liability (including current portion)	<b>15,080</b>	<b>27,591</b>	<b>2,038</b>	<b>1,916</b>	<b>5,196</b>	<b>18,441</b>
Cash bonds	<b>746</b>	<b>746</b>	<b>-</b>	<b>730</b>	<b>-</b>	<b>16</b>
Cylinder deposits	<b>718</b>	<b>718</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>718</b>
Other noncurrent liabilities**	<b>43</b>	<b>43</b>	<b>-</b>	<b>22</b>	<b>3</b>	<b>18</b>

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

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

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P34,218	P34,218	P34,218	P -	P -	P -
Trade and other receivables - net	44,657	44,657	44,657	-	-	-
Derivative assets (including noncurrent portion)	746	746	580	73	93	-
Proprietary membership shares	284	284	284	-	-	-
Investments in debt instruments	420	448	123	152	173	-
Noncurrent deposits	104	104	-	-	3	101
<b>Financial Liabilities</b>						
Short-term loans	71,090	71,466	71,466	-	-	-
Liabilities for crude oil and petroleum products	39,362	39,362	39,362	-	-	-
Trade and other payables*	24,679	24,679	24,679	-	-	-
Derivative liabilities (including noncurrent portion)	1,075	1,075	738	248	89	-
Long-term debts (including current maturities)	133,077	152,552	23,951	49,232	72,129	7,240
Lease liability (including current portion)	15,749	22,736	1,938	1,747	4,547	14,504
Cash bonds	750	750	-	732	2	16
Cylinder deposits	608	608	-	-	-	608
Other noncurrent liabilities**	53	53	-	24	10	19

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

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

### Commodity Price Risk

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

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

### Other Market Price Risk

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

### Capital Management

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

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

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

	<b>March 31, 2020</b>	December 31, 2019
Total assets	<b>P368,120</b>	P394,835
Total liabilities	<b>285,072</b>	302,405
Total equity	<b>83,048</b>	92,430
Debt to equity ratio	<b>3.4:1</b>	3.3:1
Assets to equity ratio	<b>4.4:1</b>	4.3:1

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

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

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## **10. Financial Assets and Financial Liabilities**

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

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

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

### Financial Assets

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

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

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows,

selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

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

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

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

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

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

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

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in OCI.

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

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

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

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in consolidated interim statements of income as incurred. Changes in fair value and realized gains or losses are recognized in consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in OCI. Any interest earned from investment in debt instrument accounted as at FVPL is recognized in consolidated interim statements of income. Any dividend income from investment in equity instrument classified as at FVPL is recognized in consolidated interim statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of investment.

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

#### Financial Liabilities

The Group determines the classification of its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in consolidated interim statements of income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in OCI and presented in the consolidated interim statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in consolidated interim statements of income.

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

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in consolidated interim statements of income. Gains and losses are recognized in consolidated interim statements of income when the liabilities are derecognized as well as through the amortization process.

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

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.



### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

### Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost and investments in debt instruments at FVOCI.

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

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

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

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

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

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or

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

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

#### Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated interim statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

	March 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	<b>P28,562</b>	<b>P28,562</b>	P34,218	P34,218
Trade and other receivables – net	<b>41,361</b>	<b>41,361</b>	44,657	44,657
Investments in debt instruments	<b>286</b>	<b>286</b>	257	257
Noncurrent deposits	<b>99</b>	<b>99</b>	104	104
FA at amortized cost	<b>70,308</b>	<b>70,308</b>	79,236	79,236
Investments in debt instruments	<b>162</b>	<b>162</b>	163	163
Derivative assets designated as cash flow hedge	<b>257</b>	<b>257</b>	200	200
FA at FVOCI	<b>419</b>	<b>419</b>	363	363
Proprietary membership shares	<b>283</b>	<b>283</b>	284	284
Derivative assets not designated as cash flow hedge	<b>1,880</b>	<b>1,880</b>	546	546
FA at FVPL	<b>2,163</b>	<b>2,163</b>	830	830
Total financial assets	<b>72,890</b>	<b>72,890</b>	P80,429	P80,429

	March 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	<b>P80,189</b>	<b>P80,189</b>	P71,090	P71,090
Liabilities for crude oil and petroleum products	<b>18,730</b>	<b>18,730</b>	39,362	39,362
Trade and other payables*	<b>17,084</b>	<b>17,084</b>	24,679	24,679
Long-term debts including current portion	<b>131,848</b>	<b>131,848</b>	133,077	133,077
Derivative liabilities designated as cash flow hedge	<b>737</b>	<b>737</b>	724	724
Cash bonds	<b>746</b>	<b>746</b>	750	750
Cylinder deposits	<b>718</b>	<b>718</b>	608	608
Other noncurrent liabilities**	<b>43</b>	<b>43</b>	53	53
Other FL	<b>250,095</b>	<b>250,095</b>	270,343	270,343
Derivative liabilities not designated as cash flow hedge	<b>1,523</b>	<b>1,523</b>	351	351
<b>Total financial liabilities</b>	<b>P251,618</b>	<b>P251,618</b>	P270,694	P270,694

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

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

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

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

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

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

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

*Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities.* Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used as of March 31, 2020 and December 31, 2019 are 7.55% and 7.57% respectively.

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

### Derivative Financial Instruments and Hedge Accounting

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

#### *Freestanding Derivatives*

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

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

#### *Cash Flow Hedges*

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

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

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

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to consolidated interim statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect consolidated interim statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated interim statements of income.

### *Embedded Derivatives*

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

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

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

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

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

### *Derivative Instruments Accounted for as Cash Flow Hedges*

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

March 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
<b>Foreign currency risk</b>				
<b>Call spread swaps</b>				
Notional amount (in million)	US\$115	US\$132	US\$66	US\$313
Average strike rate	P52.54 to P55.29	P52.42 to P55.40	P52.42 to P55.55	
<b>Foreign currency and interest rate risk</b>				
<b>Cross currency swap</b>				
Notional amount (in million)	US\$20	US\$40	US\$60	US\$120
Average strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
<b>Interest rate risk</b>				
<b>Interest rate collar</b>				
Notional amount (in million)		US\$30	US\$75	US\$105
Interest rate		0.44% to 1.99%	0.44% to 1.99%	

December 31, 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\$129	US\$146	US\$73	US\$348
Average strike rate	P52.71 to P55.55	P52.59 to P55.61	P52.59 to P55.75	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount (in million)	US\$20	US\$40	US\$60	US\$120
Average strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.75%	
Interest rate risk				
Interest rate collar				
Notional amount (in million)		US\$30	US\$75	US\$105
Interest rate		0.44% to 1.99%	0.44% to 1.99%	

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

<b>March 31, 2020</b>	<b>Change in Fair Value Used for Measuring Hedge Ineffectiveness</b>	<b>Hedging Reserve</b>	<b>Cost of Hedging Reserve</b>
<b>Foreign currency risk</b>			
US dollar-denominated loan	<b>P65</b>	<b>P-</b>	<b>(P45)</b>
<b>Foreign currency and interest rate risks</b>			
US dollar-denominated loan	<b>P377</b>	<b>(P286)</b>	<b>P161</b>
<b>Interest rate risks</b>			
US dollar-denominated loan	<b>P38</b>	<b>(P26)</b>	<b>P-</b>

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

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

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

March 31, 2020	Notional amount (in million)	Carrying Amount		Line tem in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
<b>Foreign currency risk:</b>									
Call spread swaps	US\$313	P195	P260	Financial assets at FVPL, Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P65)	P83	P-	P52	Other income (expenses) - net
<b>Foreign currency and interest rate risks:</b>									
Cross currency swap	US\$120	P62	P439	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P377)	P25	(P5)	P37	Interest Expense and other financing charges, and Other income (expenses) - net
<b>Interest rate risk</b>									
Interest rate collar	US\$105	P-	P38	Derivative liabilities, Other noncurrent liabilities	(P38)	P-	P-	P-	
<hr/>									
December 31, 2019	Notional amount (in million)	Carrying Amount		Line tem in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
<b>Foreign currency risk:</b>									
Call spread swaps	US\$348	P156	P356	Financial assets at fair value, Other noncurrent assets, Derivative liabilities and Other noncurrent liabilities	(P200)	(P344)	P-	P254	Other income (expenses) - net
<b>Foreign currency and interest rate risks:</b>									
Cross currency swap	US\$120	P37	P368	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	(P331)	P104	P205	P65	Interest Expense and other financing charges, and Other income (expenses) - net
<b>Interest rate risk</b>									
Interest rate collar	US\$105	P7	P-	Other noncurrent assets, Derivative liabilities	P7	P-	P-	P-	

No ineffectiveness was recognized in the 2020 and 2019 consolidated statements of income.



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

	March 31, 2020		December 31, 2019	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of period	(P201)	(P21)	P -	(P77)
Changes in fair value:				
Foreign currency risk	-	83	-	(344)
Foreign currency risk and interest rate risk	(109)	25	(499)	104
Interest rate risk	(45)	-	7	-
Amount reclassified to profit or loss				
Foreign currency risk	-	52	-	254
Foreign currency risk and interest rate risk	(5)	37	205	65
Interest rate risk	-	-	-	-
Income tax effect	48	(60)	86	(23)
Balance at end of period	(P312)	P116	(P201)	(P21)

#### *Derivative Instruments Not Designated as Hedges*

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

#### *Freestanding Derivatives*

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

*Currency Forwards.* As of March 31, 2020 and December 31, 2019, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$588 million and US\$680 million, respectively, and with various maturities. As of March 31, 2020 and December 31, 2019, the net negative fair value of these currency forwards amounted to P153 and P160, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. Total outstanding equivalent notional quantity covered by the commodity swaps were 22.7 million barrels and 12.5 million barrels as of March 31, 2020 and December 31, 2019, respectively. The estimated net receipt for these transactions amounted to P767 and P355 as of March 31, 2020 and December 31, 2019, respectively.

*Commodity Options.* As of March 31, 2020 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. The call and put options can be exercised at various calculation dates with specified quantities on each calculation date. The estimated net payout for this call and put options amounted to P256 as of March 31, 2020. As of December 31, 2019, the Company has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

#### *Embedded Derivatives*

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of the Parent Company. Under the sales and purchases contracts, the

peso equivalent is determined using the average Philippine Dealing System rate on the month preceding the month of delivery.

As of March 31, 2020 and December 31, 2019, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2020 and December 31, 2019, the net positive fair value of these embedded currency forwards is minimal.

For the periods ended March 31, 2020 and 2019, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P439 and P372, respectively.

#### Fair Value Measurements

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

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

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

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

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

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

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

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

### Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method, as of March 31, 2020 and December 31, 2019.

	<b>Level 2</b>	
	<b>March 31, 2020</b>	December 31, 2019
Financial Assets:		
Proprietary membership shares	<b>P283</b>	P284
Derivative assets	<b>2,137</b>	746
Investments in debt instruments	<b>162</b>	163
Financial Liabilities:		
Derivative liabilities	<b>(2,260)</b>	(1,075)

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

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

The Parent Company made payments of P250 on January 13, 2020, P536 on January 25, 2020 and P625 on March 31, 2020 to partially settle its P5,000, P15,000 and P10,000 term loan facilities, respectively.

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

Basic and diluted earnings (loss) per share amounts for the three months ended March 31, 2020 and 2019 are computed as follows:

	<b>2020</b>	2019
Net income (loss) attributable to equity holders of the Parent Company	<b>(P4,614)</b>	P1,105
Dividends on preferred shares for the period	<b>(397)</b>	(162)
Distributions to the holders of capital securities for the period	<b>(420)</b>	(431)
Net income (loss) attributable to common shareholders of the Parent Company (a)	<b>(P5,431)</b>	P512
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	<b>(P0.58)</b>	P0.05

As of March 31, 2020 and 2019, the Parent Company has no potential dilutive debt or equity instruments.

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### 13. Cash Dividends and Distributions

#### Dividends

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

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2020</b>				
Common	P0.10000	March 10, 2020	March 24, 2020	April 8, 2020
Series 2B	17.14575	March 10, 2020	April 7, 2020	May 4, 2020
Series 3A	17.17825	March 10, 2020	June 1, 2020	June 25, 2020
Series 3B	17.84575	March 10, 2020	June 1, 2020	June 25, 2020
<b>2019</b>				
Common	P0.10000	March 12, 2019	March 27, 2019	April 11, 2019
Series 2A	15.75000	March 12, 2019	April 4, 2019	May 3, 2019
Series 2B	17.14575	March 12, 2019	April 4, 2019	May 3, 2019
Series 2A	15.75000	March 12, 2019	July 12, 2019	August 5, 2019
Series 2B	17.14575	March 12, 2019	July 12, 2019	August 5, 2019
Series 2A	15.75000	August 6, 2019	October 11, 2019	November 4, 2019
Series 2B	17.14575	August 6, 2019	October 11, 2019	November 4, 2019
Series 3A	17.17825	August 6, 2019	September 2, 2019	September 25, 2019
Series 3B	17.84575	August 6, 2019	September 2, 2019	September 25, 2019
Series 3A	17.17825	November 5, 2019	December 2, 2019	December 26, 2019
Series 3B	17.84575	November 5, 2019	December 2, 2019	December 26, 2019
Series 2B	17.14575	November 5, 2019	January 14, 2020	February 3, 2020
Series 3A	17.17825	November 5, 2019	March 2, 2020	March 25, 2020
Series 3B	17.84575	November 5, 2019	March 2, 2020	March 25, 2020

#### Distributions

Payments of distributions pertaining to SPCS and RPS were made on respective dates: January 17, 2020 (P834) and February 27, 2020 (P3).

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### 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 86% of crude and condensate volume processed are from EMEPMI with balance of around 14% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of “Liabilities for crude oil and petroleum products” account in the consolidated interim statements of financial position as of March 31, 2020 and December 31, 2019.

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

#### Unused Letters of Credit and Outstanding Standby Letters of Credit

The Group has unused letters of credit totaling approximately P24,976 and P21,041 as of March 31, 2020 and December 31, 2019, respectively.

#### Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third-party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil (IFO), sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the Regional Trial Court of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of March 31, 2020. In the course of plaintiffs’ presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering the Company to file its comment on plaintiffs’ petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continues.

#### Other Proceedings

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

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## 15. Events After the Reporting Period

- a. On April 22, 2020, the Parent Company drew JP¥15 billion from a JP¥15 billion term loan facility signed and executed on March 27, 2020. The proceeds were used to partially prepay its US\$1 billion term loan facility. The JP¥ facility is amortized over 5 years with a 2-year grace period, after which the total principal will be amortized in 7 equal semi-annual installments beginning March 27, 2022. It is subject to a floating interest rate based on JP¥ LIBOR plus a spread, repriced every 1, 3 or 6 months.
- b. On April 27, 2020, the Parent Company drew P5 billion from a P5 billion term loan facility which was signed and executed on April 23, 2020. The facility is subject to a fixed interest rate of 4.59% and amortized over 5 years with a 12-month grace period, after which the total principal will be amortized in 16 equal quarterly payments beginning July 27, 2021. The proceeds were used for general corporate purposes.
- c. On May 26, 2020, the BOD of the Parent Company approved the declaration of cash dividends for Series 2B and Series 3 preferred shareholders with the following details:

Type	Per Share	Date of Record	Date of Payment
Series 2B	17.14575	July 9, 2020	August 3, 2020
Series 3A	17.17825	September 2, 2020	September 25, 2020
Series 3B	17.84575	September 2, 2020	September 25, 2020

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## 16. Other Matters

- a. Lease Agreements with PNO

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against PNO for the reconveyance of the various landholdings it conveyed to PNO 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 PNO was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNO 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 PNO 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 PNO, 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 PNO from committing any act aimed at ousting the Parent Company from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. The Parent Company also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted the Parent Company's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to the Parent Company's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to the Parent Company of all such properties, and (iii) the payment by the Parent Company to PNOC of the amount of P143 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. The Parent Company also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to the Parent Company all lease payments the latter had paid to PNOC since 1993.

In a resolution dated February 24, 2020, the trial court denied the respective motions for reconsideration filed by the Parent Company and PNOC. PNOC filed a notice of appeal with the trial court, a copy of which was received by the Parent Company on March 9, 2020. The Parent Company has until June 1, 2020 to file a notice of appeal.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2020.
- 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 contracted by 0.2% in 1Q 2020, the first time it recorded a decline since 4Q 1998.

Economic growth (in percentage)	1Q 2019	1Q 2020
GDP	5.7	(0.2)
<i>By Industry</i>		
Agriculture	0.5	(0.4)
Industry	4.9	(3.0)
Services	7.1	1.4
<i>By Expenditure</i>		
Household Consumption	6.2	0.2
Government Consumption	6.4	7.1
Capital Formation	9.8	(18.3)
Exports	4.2	(3.0)
Imports	8.9	(9.0)

The overall decrease is mainly attributed with eruption of Taal Volcano and the COVID-19 pandemic disrupting economic activities. To prevent spread of the virus, enhanced community quarantine (ECQ) was implemented in Luzon and other parts of the country beginning March 16 up to May 30 wherein public transport was prohibited, business operations limited to essential sectors/industries and movement of people restricted.

On the supply side, Agriculture, Industry and Services were all adversely affected by the implementation of ECQ.

On the demand side, Household Consumption was negatively affected by temporary unemployment, restrictions on mobility and halting of non-essential business operations due to the ECQ and easing remittances with the global economy hit by the COVID-19 pandemic. Capital Formation declined due to tepid “Build Build Build” infrastructure program, while Export was heavily affected by weakness in China, our top export destination. However, these were partly cushioned by Government Spending on relief programs and offset by decline in import of goods.

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

91-day T-Bill rates averaged 3.14% in 1Q 2020, lower compared to 5.59% in 1Q 2019 and 3.31% the previous quarter.

Bangko Sentral ng Pilipinas (BSP) increased its policy interest rates in 2018, amid accelerated inflation, by a total of 175 bps to 4.75% by year-end. As inflation started to ease, BSP started to reduce rates by a 75 bps in 2019 and another 75bps in 1Q 2020. This brought policy rates to 3.25% by end of March 2020. The policy rates set by BSP are used by financial institutions as benchmark in setting deposit and loan rates.

#### Peso-Dollar Exchange Rate

The peso averaged P50.8/\$ in 1Q 2020, a 3.0% appreciation from P52.36/\$ in the same period last year. Moderate inflation, strong balance-of-payments position, and rising international reserves allowed the peso to be one of the only four currencies in Asia that strengthened against the US dollar.

#### Inflation

The rate of increase in prices of commodities and services decelerated to 2.7% in 1Q 2020, from 3.8% in the same period last year. Easing domestic demand for transportation, cheaper electricity, and steep decline in oil prices, amid COVID-19, underpinned the slowdown.

#### Industry Oil Demand

Oil demand<sup>1</sup> grew by 3.7% to 160,865 MB in 2019 from 155,177 MB in 2018. Lower global oil prices, healthy household consumption and manageable level of inflation supported higher demand for gasoline, diesel and LPG. Automotive vehicle sales likewise have recovered, recording a slight growth of 3.5%.

#### Oil Market

Year-on-year prices of Dubai declined by 20.1% to \$50.7/bbl in 1Q 2020 vs. \$63.5/bbl in the same period last year, on the back of slump in demand amid COVID-19. Cracks are generally weaker across all products due to supply glut and decline in demand.

#### Existing or Probable Government Regulations

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<sup>1</sup> 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 2019 is the latest published data.



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

The TRAIN law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost would eventually be passed on to oil companies which could result in higher fuel prices.

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

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

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

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

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

*Compliance with Euro 4 standards*. In September 2010, the Department of Environment and Natural Resources issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015-06-0004 entitled “Implementing the

Corresponding Philippine National Standard Specifications for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro 4-compliant fuels. With its Refinery Master Plan-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.

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

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

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

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

*Amended Price 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.

*Executive Order No. 113 (2020): Temporarily Modifying the Rates of Import Duty on Crude Petroleum Oil and Refined Petroleum Products Under Section 1611 of Republic Act No. 10863, otherwise known*

as *“The Customs Modernization and Tariff Act.”* Executive Order No. 113, which was signed by President Rodrigo R. Duterte on May 2, 2020, modified the import duty of petroleum from zero to 10%. Under this executive order, crude oil and finished petroleum products are subjected to an import duty of 10%. The modified rate will revert back to zero once the Bayanihan to Heal as One Act ceases to be in effect or as soon as the trigger price for international oil has been reached. Subsequently, the Bureau of Customs issued Customs Memorandum Circular No. 125-2020 which serves as the implementing guidelines of this order.

**PETRON CORPORATION AND SUBSIDIARIES**

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**RECEIVABLES**

As of March 31, 2020

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	<b>P30,244</b>
Accounts Receivable – Non-Trade	<b>11,117</b>
<b>Total Accounts Receivable - Net</b>	<b>P41,361</b>

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**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P29,030
	31 – 60 days	962
	61 – 90 days	78
	Over 90 days	931
<b>Total</b>		<b>31,001</b>
Allowance for doubtful accounts		(757)
<b>Accounts Receivable – Trade</b>		<b>P30,244</b>

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## Interim Financial Report as of and for the period ended March 31, 2020

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

#### Financial Performance

#### 1Q 2020 vs 1Q 2019

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

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

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

The following factors influenced the first quarter's performance:

- ◆ **Consolidated sales volume** decreased by 6% to **24.7 million barrels (MMB)** from previous year's 26.3 MMB largely due to the drastic drop in demand starting on the 2<sup>nd</sup> half of March with the implementation of Enhanced Community Quarantine (ECQ) in the Philippines and Movement Control Order (MCO) in Malaysia. The limited mobility and reduced economic activities dampened domestic sales. Commercial sales went down with travel bans imposed within and in and out of the country and reduced withdrawals of consumer and industrial accounts while Retail sales declined due to lesser motorists on the road. These were tempered by the increase in trading volume of PSTPL.
- ◆ **Net sales** significantly fell by 16% to **₱ 104.62 billion** from LY's **₱ 124.56 billion** due to the combined effect of lower selling price and volume. Drop in selling price was traced to the plunge in regional prices of finished products partly offset by the additional excise tax following the implementation of the last tranche of the TRAIN law.
- ◆ **Cost of goods sold (CGS)** at **₱ 105.57 billion** was 9% or **₱ 10.5 billion** lower than LY largely due to the decline in sales volume and further pulled down by lower cost per liter. Average price of benchmark crude

Dubai dropped by 20% to US\$50.7/bbl from US\$63.5/bbl in 1Q 2019. The sharp dip in Dubai started on March 9 when it dropped 32% overnight settling at US\$23.4/bbl by end-March.

- ◆ **Selling and administrative expenses (OPEX)** was lower by 4% or ₱ 144 million to **₱ 3.47 billion** on account of lower advertising expenses, employee cost, rent and depreciation.
- ◆ **Net financing costs and other charges** dropped by 18% from ₱ 3.15 billion to **₱ 2.58 billion** due to lower average interest rate despite higher average borrowing level, higher net forex hedging gain and the unrealized commodity hedging gains recognized this quarter as opposed to the unrealized loss LY..
- ◆ **Income tax benefit** amounted to **₱ 2.1 billion in 1Q 2020** owing to the loss before tax, as against last year's ₱ 410 million expense.

### 1Q 2019 vs 1Q 2018

For the first quarter (1Q) of 2019, Petron Corporation reported a consolidated net income of **₱ 1.30 billion**, lower than the ₱ 5.79 billion posted in the same quarter of previous year. Philippine operations, in particular, was affected by the second phase implementation of the additional excise taxes on fuel based on the TRAIN law, lower sales volume due to stiff competition and weak refining margins prevailing in the region.

<i>(In Million Pesos)</i>	2019	2018	Variance - Fav (Unfav)	
			Amount	%
Sales	124,558	129,112	(4,554)	(4)
Cost of Goods Sold	116,083	116,938	855	1
Gross Profit	8,475	12,174	(3,699)	(30)
Selling and Administrative Expenses (net of Other Operating Income)	3,610	3,378	(232)	(7)
Non-operating Charges	3,152	1,452	1,700	High
<b>Net Income</b>	<b>1,303</b>	<b>5,786</b>	<b>(4,483)</b>	<b>(77)</b>
EBITDA	8,000	11,944	(3,944)	(33)
Sales Volume (MB)	26,343	26,558	(215)	(1)
Earnings per Share	0.05	0.47	(0.42)	(89)
Return on Sales (%)	1.0	4.5	(3.5)	

Likewise, **earnings before interest, taxes, depreciation and amortization (EBITDA)** declined by 33% to **₱ 8.00 billion**, while **earnings per share** was reduced to **₱ 0.05** from previous year's ₱ 0.47.

The factors affecting this quarter's performance were the following:

- ◆ **Consolidated sales volume of 26.3 million barrels (MMB)** was slightly lower than previous year's 26.6 MMB mainly due to the drop in Exports sales. Retail volume also weakened with the implementation of the second tranche of the TRAIN law. This, however, was partly countered by the 7% volume growth of Malaysia's Retail as the company gained more market share with the opening of new service stations and aggressive marketing programs. On a per product basis, the drop in volume of gasoline and petrochemicals were tempered by the increases in kero/jet, diesel, LPG and polypropylene sales.

- ◆ **Net sales** declined by 4% to **₱ 124.56 billion** from last year's ₱ 129.11 billion mainly as a result of the decline in sales volume in the Philippines and lower selling price in Malaysia. The dip in selling prices can be traced to lower MOPS prices in the region partly negated by higher excise taxes.
- ◆ **Cost of goods sold (CGS)** dropped by only 1% or ₱ 801 million to **₱ 116.08 billion** as the effect of the decline in sales volume was negated by higher crude costs. Gross margin dropped by 31% to ₱ 8.48 billion owing to lower product cracks.
- ◆ **Selling and administrative expenses (OPEX)** went up by 5% or ₱ 178 million to **₱ 3.61 billion** primarily due to higher LPG cylinder purchases, terminalling and storage fees, and service stations-related expenses such as rent, maintenance, real estate taxes and depreciation.
- ◆ **Net financing costs and other charges** at **₱ 3.15 billion** was considerably higher than the ₱ 1.45 billion level last year prompted by higher interest expense due to higher average borrowing rate and additional loans aggravated by the unrealized commodity hedging losses this quarter compared to gains in 2018.
- ◆ **Income tax expense** of **₱ 410 million** was significantly lower than last year's **₱ 1.56 billion** primarily due to lower pre-tax income.

## **Financial Position**

### **1Q 2020 vs 2019**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1Q 2019 vs 2018**

By the end of first quarter of 2019, the **consolidated assets** of Petron Corporation and its Subsidiaries reached **₱ 382.42 billion**, 7% or ₱ 24.27 billion higher than end of 2018 balance of ₱ 358.15 billion, mainly due to the adoption of PFRS 16 – Leases, which treated all major leases as capital lease and gave rise to the recognition of right-of-use asset and increase in investment properties, boosted by the increase in cash and cash equivalents.

**Cash and cash equivalents** increased by ₱ 12.74 billion to **₱ 30.14 billion** mainly from fund generated from operations and timing difference in the settlement of crude and trade liabilities, tempered by the spending for capital projects at the refinery and terminals and payment of cash dividends and distributions.

**Financial assets at fair value** went down to **₱ 1.02 billion** from ₱ 1.13 billion on account of lower marked-to-market (MTM) gain on outstanding commodity and currency hedging transactions.



**Other current assets** dropped by 17% to **₱ 30.94 billion** from ₱ 37.08 billion due to lower input tax and other prepaid taxes.

**Deferred tax assets - net** decreased from ₱ 257 million to **₱ 245 million** with the availment of the Net Operating Loss Carry-Over (NOLCO) of a subsidiary in Malaysia.

The adoption of PFRS 16 resulted to the recognition of **right-of-use assets** of **₱ 8.93 billion**, increased **investment property** from ₱ 16.54 billion to **₱ 26.80 billion**, reduced prepaid rent reflected in the 33% movement of **other noncurrent assets** from ₱ 6.49 billion to **₱ 4.35 billion** and set-up of lease liabilities - current and noncurrent totaling **₱ 14.74 billion**.

**Liabilities for crude oil and petroleum products** increased by 34% from ₱ 25.99 billion to **₱ 34.87 billion** largely due to higher volume and price of outstanding crude purchases.

**Trade and other payables** rose by 9% from ₱ 28.47 billion to **₱ 30.97 billion** mainly due to various liabilities to contractors and vendors.

**Derivative liabilities** declined from ₱ 614 million to **₱ 466 million** attributable to lower MTM losses on outstanding commodity and currency hedges.

**Income tax payable** increased from ₱ 146 million to **₱ 249 million** arising from higher tax liabilities of foreign subsidiaries.

**Deferred tax liability – net** decreased from ₱ 8.45 billion to **₱ 7.85 billion** largely due to recognition of NOLCO of Parent Company.

**Other noncurrent liabilities** amounted to **₱ 1.50 billion**, stood 18% higher from end-2018 level traced to premium costs of additional derivative instruments.

## Cash Flows

### 1Q 2020 vs 1Q 2019

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

In Million Pesos	Mar. 31, 2020	Mar. 31, 2019	Change
Operating (outflows) inflows	(9,080)	18,944	(28,024)
Investing (outflows) inflows	(2,532)	(4,735)	2,203
Financing inflows (outflows)	5,939	(1,441)	7,380

## 1Q 2019 vs 1Q 2018

As of March 31, 2019, cash and cash equivalents stood at ₱ 30.14 billion. During the first quarter, cash generated from internal operations amounted to ₱ 22.03 billion, which was partially used to settle interest and taxes (₱ 3.21 billion), finance various capital spending at the refinery, terminals and service stations (₱ 4.41 billion) and pay for dividends and distributions of ₱ 1.0 billion.

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

Ratio	31-Mar-20	31-Dec-19
Current Ratio	1.1	1.1
Total Interest-bearing Debt to Equity Ratio	2.6	2.21
Return on Equity (%)	(4.4)	2.6
Interest Rate Coverage Ratio	(1.4)	1.3
Assets to Equity Ratio	4.4	4.3

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

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

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

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

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

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

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

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

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

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

## **PART II – OTHER INFORMATION**


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

NONE.

## SIGNATURES

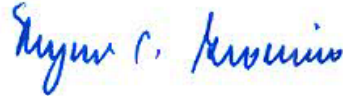
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PETRON CORPORATION**

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

Date: May 27, 2020

Principal Financial/Accounting Officer/Controller

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

Date: May 27, 2020

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

<b>Financial Ratios</b>	<b>Formula</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>1.07</b>	<b>1.13</b>
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	<b>0.50</b>	<b>0.50</b>
<b>Solvency</b>			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	<b>2.55</b>	<b>2.21</b>
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>4.43</b>	<b>4.27</b>
<b>Profitability</b>			
e) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	<b>-4.42%</b>	<b>2.58%</b>
f) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	<b>-1.02%</b>	<b>0.61%</b>
g) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>-1.35</b>	<b>1.28</b>
<b>Operating Efficiency</b>			
h) Volume Growth	$\left( \frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	<b>-6.39%</b>	<b>-1.42%</b>
i) Sales Growth	$\left( \frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	<b>-16.00%</b>	<b>-7.72%</b>
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	<b>-4.21%</b>	<b>3.15%</b>

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

<sup>b</sup> excludes lease liabilities