

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
Sep 30, 2023
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 3A (PRF3A)	13,403,000
PREFERRED SERIES 3B (PRF3B)	6,597,000
PREFERRED SERIES 4A (PRF4A)	5,000,000
PREFERRED SERIES 4B (PRF4B)	2,995,000
PREFERRED SERIES 4C (PRF4C)	6,005,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO) (REDEEMED ON OCT 27 2023)	7,000
PCOR SERIES C BONDS DUE 2024 (IN MIL PESO)	13,200

PCOR SERIES D BONDS DUE 2025 (IN MIL PESO)	6,800
PCOR SERIES E BONDS DUE 2025 (IN MIL PESO)	9,000
PCOR SERIES F BONDS DUE 2027 (IN MIL PESO)	9,000
TOTAL DEBT AS OF SEPT 30 2023 (IN MIL PESO-CONSO)	240,987

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 Series 3A, 3B, 4A, 4B and 4C Preferred Shares; Philippine Dealing & Exchange Corp. - Series B (Redeemed on Oct 27 2023), C, D, E and F Bonds

12. Indicate by check mark whether the registrant:

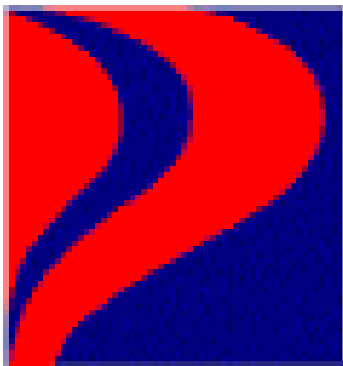
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes No

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

Yes No

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



PETRON

Petron Corporation

PCOR

**References: SRC Rule 17 and
Sections 17.2 and 17.8 of the Revised Disclosure Rules**

For the period ended	Sep 30, 2023
Currency (indicate units, if applicable)	Peso (in Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2023	Dec 31, 2022
Current Assets	243,987	243,287
Total Assets	456,927	460,071
Current Liabilities	238,162	227,555
Total Liabilities	355,052	346,521
Retained Earnings/(Deficit)	33,875	30,357
Stockholders' Equity	101,875	113,550
Stockholders' Equity - Parent	93,331	105,167
Book Value per Share	2.38	2.44

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	220,691	232,995	588,538	632,247
Gross Expense	209,694	232,513	561,530	615,749
Non-Operating Income	334	2,718	1,079	1,968
Non-Operating Expense	6,819	3,581	15,562	8,825
Income/(Loss) Before Tax	4,512	-381	12,525	9,641
Income Tax Expense	1,146	-854	3,017	1,462
Net Income/(Loss) After Tax	3,366	473	9,508	8,179
Net Income Attributable to Parent Equity Holder	3,102	378	8,750	7,139
Earnings/(Loss) Per Share (Basic)	0.17	-0.1	0.49	0.39
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	0.12	0.24
Earnings/(Loss) Per Share (Diluted)	-	-

Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the Third Quarter 2023 of the Company.

Filed on behalf by:

Name	Jhoanna Jasmine Javier-Elacio
Designation	Assistant Vice President - General Counsel and Corporate Secretary/Compliance Officer

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

Yes No

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

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

12. Indicate by check mark whether the Registrant:

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

Yes No

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


Yes No

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SIGNATURES

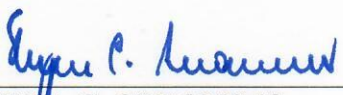

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PETRON CORPORATION**

Signature and Title: 
JHOANNA JASMINE M. JAVIER-ELACIO
AVP, General Counsel, Corporate Secretary
and Compliance Officer

Date: November 13, 2023

Principal Financial/Accounting Officer/Controller

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

Date: November 13, 2023

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


	<i>Note</i>	Unaudited September 30 2023	Audited December 31 2022
ASSETS			
Current Assets			
Cash and cash equivalents	8, 9	P28,633	P37,183
Financial assets at fair value	8, 9	1,935	1,753
Trade and other receivables - net	6, 8, 9	87,868	81,979
Inventories - net		83,541	85,347
Other current assets	6	42,010	37,025
Total Current Assets		243,987	243,287
Noncurrent Assets			
Investment in shares of stock of an associate and joint venture		1,175	1,075
Property, plant and equipment - net	4, 5	167,446	170,153
Right-of-use assets - net		6,052	5,398
Investment property - net		27,168	28,437
Deferred tax assets - net		898	1,812
Goodwill - net		8,118	8,509
Other noncurrent assets - net	8, 9	2,083	1,400
Total Noncurrent Assets		212,940	216,784
		P456,927	P460,071
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	6, 7, 8, 9	P122,772	P137,886
Liabilities for crude oil and petroleum products	8, 9	56,644	51,067
Trade and other payables	6, 8, 9	26,018	22,896
Lease liabilities - current portion	8, 9	1,449	1,380
Derivative liabilities	8, 9	2,726	723
Income tax payable		672	204
Current portion of long-term debt - net	8, 9	27,881	13,399
Total Current Liabilities		238,162	227,555

Forward

	<i>Note</i>	Unaudited September 30 2023	Audited December 31 2022
Noncurrent Liabilities			
Long-term debt - net of current portion	8, 9	P90,334	P93,662
Retirement benefits liability - net		2,731	3,261
Deferred tax liabilities - net		4,175	3,601
Lease liabilities - net of current portion	8, 9	14,183	13,714
Asset retirement obligation		4,303	3,527
Other noncurrent liabilities	8, 9	1,164	1,201
Total Noncurrent Liabilities		116,890	118,966
Total Liabilities		355,052	346,521
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		9,485	9,485
Additional paid-in capital		40,988	37,500
Capital securities		37,529	62,712
Retained earnings		33,875	30,357
Equity reserves		(20,946)	(16,887)
Treasury stock		(7,600)	(18,000)
Total Equity Attributable to Equity Holders of the Parent Company		93,331	105,167
Non-controlling Interests		8,544	8,383
Total Equity		101,875	113,550
		456,927	P460,071

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

Certified by:


MYRNA C. GERONIMO
 Vice President – Controllers 

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


(Amounts in Million Pesos, Except Per Share Data)

		July to September		January to September	
	<i>Not e</i>	2023	2022	2023	2022
SALES	4	P220,246	P232,621	P587,283	P631,138
COST OF GOODS SOLD		205,470	228,792	548,913	604,374
GROSS PROFIT		14,776	3,829	38,370	26,764
SELLING AND ADMINISTRATIVE EXPENSES		(4,224)	(3,721)	(12,617)	(11,375)
OTHER OPERATING INCOME		445	374	1,255	1,109
INTEREST EXPENSE AND OTHER FINANCING CHARGES	4	(4,919)	(3,581)	(13,706)	(8,825)
INTEREST INCOME	4	299	231	996	550
SHARE IN NET INCOME OF AN ASSOCIATE AND JOINT VENTURE		35	17	83	49
OTHER INCOME (EXPENSES) - Net		(1,900)	2,470	(1,856)	1,369
		(10,264)	(4,210)	(25,845)	(17,123)
INCOME (LOSS) BEFORE INCOME TAX		4,512	(381)	12,525	9,641
INCOME TAX EXPENSE (BENEFIT)	4	1,146	(854)	3,017	1,462
NET INCOME		P3,366	P473	P9,508	P8,179
Attributable to:					
Equity holders of the Parent Company		P3,102	P378	P8,750	7,139
Non-controlling interests		264	95	758	1,040
		P3,366	P473	P9,508	P8,179
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	11	P 0.17	P0.10	P0.49	P0.39

Certified by:



MYRNA C. GERONIMO

Vice President - Controllers 

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

	July to September		January to September	
	2023	2022	2023	2022
NET INCOME	P3,366	P473	P9,508	P8,179
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Net income (loss) on cash flow hedges	-	21	(68)	37
Exchange differences on translation of foreign operations	1,114	1,017	(2,117)	2,538
Share in other comprehensive income (loss) of an associate and joint venture	(1)	-	9	-
Income tax benefit (expense)	-	(5)	18	(9)
	1,113	1,033	(2,158)	2,566
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	1,113	1,033	(2,158)	2,566
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax	P4,479	P1,056	P7,350	P10,745
Attributable to:				
Equity holders of the Parent Company	P4,050	P1,307	P6,977	P9,429
Non-controlling interests	429	199	373	1,316
	P4,479	P1,506	P7,350	P10,745

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	Retained Earnings					Equity Reserves					
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total		
As of January 1, 2023 (Audited)		P9,485	P37,500	P62,712	P7,003	P23,354	(P6,437)	(P10,450)	(P18,000)	P105,167	P8,383	P113,550
Net loss on cash flow hedges - net of tax		-	-	-	-	-	-	(50)	-	(50)	-	(50)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,732)	-	(1,732)	(385)	(2,117)
Share in other comprehensive income of an associate and joint venture		-	-	-	-	-	-	9	-	9	-	9
Other comprehensive loss for the period		-	-	-	-	-	-	(1,773)	-	(1,733)	(385)	(2,158)
Net income for the period		-	-	-	-	8,750	-	-	-	8,750	758	9,508
Total comprehensive income (loss) for the period		-	-	-	-	8,750	-	(1,773)	-	6,977	373	7,350
Cash dividends	12	-	-	-	-	(1,874)	-	-	-	(1,874)	(212)	(2,086)
Distributions paid	12	-	-	-	-	(3,215)	-	-	-	(3,215)	-	(3,215)
Reissuance of preferred shares		-	3,488	-	-	-	-	-	10,400	13,888	-	13,888
Redemption of capital securities		-	-	(25,183)	-	-	-	(2,286)	-	(27,469)	-	(27,469)
Share issuance cost of a subsidiary		-	-	-	-	(143)	-	-	-	(143)	-	(143)
Reversal of retained earnings appropriation		-	-	-	(7,000)	7,000	-	-	-	-	-	-
Transactions with owners		-	3,488	(25,183)	-	1,768	-	(2,286)	10,400	(18,813)	(212)	(19,025)
As of September 30, 2023 (Unaudited)		P9,485	P40,988	P37,529	P3	P33,872	(P6,437)	(P14,509)	(P7,600)	P93,331	P8,544	P101,875

Forward

	Equity Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
	Note	Retained Earnings					Equity Reserves			Total		
		Capital Stock	Additional Paid-in Capital	Capital Securities	Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
As of January 1, 2022 (Audited)		P9,485	P37,500	P62,712	P7,003	P23,229	(P5,962)	(P12,379)	(P18,000)	P103,588	P7,325	P110,913
Net income on cash flow hedges - net of tax		-	-	-	-	-	-	28	-	28	-	28
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,262	-	2,262	276	2,538
Other comprehensive income for the period		-	-	-	-	-	-	2,290	-	2,290	276	2,566
Net income for the period		-	-	-	-	7,139	-	-	-	7,139	1,040	8,179
Total comprehensive income for the period		-	-	-	-	7,139	-	2,290	-	9,429	1,316	10,745
Cash dividends		-	-	-	-	(348)	-	-	-	(348)	(179)	(527)
Distributions paid	12	-	-	-	-	(3,139)	-	-	-	(3,139)	-	(3,139)
Transactions with owners		-	-	-	-	(3,487)	-	-	-	(3,487)	(179)	(3,666)
As of September 30, 2022 (Unaudited)		P9,485	P37,500	P62,712	P7,003	P26,881	(P5,962)	(P10,089)	(P18,000)	P109,530	P8,462	P117,992

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

Certified by:

MYRNA C. GERONIMO
Vice President - Controllers

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

		For the Nine Months Ended September 30	
	<i>Note</i>	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P12,525	P9,641
Adjustments for:			
Share in net income of an associate and joint venture		(83)	(49)
Depreciation and amortization		9,426	8,584
Interest expense and other financing charges	4	13,706	8,825
Retirement benefits costs		236	251
Interest income	4	(996)	(550)
Unrealized foreign exchange losses (gains) - net		418	3,441
Other losses (gains) – net		127	(788)
Operating income before working capital changes		35,359	29,355
Changes in noncash assets, certain current liabilities and others		620	(46,119)
Cash generated from (used in) operations		35,979	(16,764)
Contributions to retirement fund		(800)	(800)
Interest paid		(13,191)	(8,298)
Income taxes paid		(579)	(567)
Interest received		1,003	533
Net cash flows provided by (used in) operating activities		22,412	(25,896)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	(4,686)	(4,473)
Proceeds from sale of property and equipment		7	8
Additions to investment property		(201)	(340)
Increase in other noncurrent assets		(9)	(34)
Net cash flows used in investing activities		(4,889)	(4,839)

Forward

**For the Nine Months Ended
September 30**

	<i>Note</i>	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans	7	P 186,854	P276,724
Payments of:			
Loans	7	(191,789)	(239,826)
Lease liabilities		(1,903)	(1,799)
Cash dividends and distributions	12	(5,378)	(4,355)
Redemption of capital securities		(27,469)	-
Reissuance of preferred shares		13,888	-
Share issuance cost of subsidiary		(143)	-
Net cash flows provided by (used in) financing activities		(25,940)	30,744
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(133)	4,802
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(8,550)	4,811
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
		37,183	36,406
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
		P28,633	P41,217

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

Certified by:

MYRNA C. GERONIMO
Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. Reporting Entity

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

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

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

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

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

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

2. Summary of Significant Accounting and Financial Reporting Policies

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on November 7, 2023.

The consolidated financial statements are presented in Philippine Peso and all financial information are rounded off to the nearest million (P000,000), except when otherwise indicated.

The principal accounting policies adopted in preparing the interim consolidated financial statements of the Group are consistent with those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

The Financial and Sustainability Reporting Standards Council (FSRSC) approved the adoption of a number of new and amendments to standards as part of Philippine Financial Reporting Standards (PFRS).

Adoption of Amendments to Standards

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

- **Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*).** The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.
- **Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Making Materiality Judgments*).** The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 include guidance and additional examples on the application of materiality to accounting policy disclosures.
- **Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*).** The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

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

New and Amendments to Standards Not Yet Adopted

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

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

- ***International Tax Reform - Pillar Two Model Rules* (Amendments to PAS 12).** The amendments include a temporary, mandatory exemption from accounting for deferred taxes resulting from the introduction of the global minimum taxation and targeted disclosures in the notes for affected entities to enable users of financial statements to understand the extent to which an entity will be affected by the minimum tax, particularly before the legislation comes into force.

The accounting exemption is to be applied immediately after publication of the amendment. The amendments relating to the notes are applicable for annual reporting periods beginning on or after January 1, 2023. Disclosures in the notes for interim reporting periods ending on or before December 31, 2023 are not required.

- Lease Liability in a Sale and Leaseback (Amendments to PFRS 16, *Leases*). The amendments confirm the following:
 - On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale and leaseback transaction.
 - After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognizes no gain or loss relating to the right-of-use asset it retains.

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

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

- Classification of Liabilities as Current or Noncurrent - 2020 Amendments and Noncurrent Liabilities with Covenants - 2022 Amendments (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
 - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead require that the right must have substance and exist at the reporting date;
 - clarified that only covenants with which the entity must comply on or before the reporting date affect the classification of a liability as current or noncurrent and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
 - provided additional disclosure requirements for noncurrent liabilities subject to conditions within 12 months after the reporting period to enable the assessment of the risk that the liability could become repayable within 12 months; and
 - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with early application permitted.

- Supplier Finance Arrangements (Amendments to PAS 7, Statement of Cash Flows, and PFRS 7, Financial Instruments: Disclosures). The amendments introduce new disclosure objectives to provide information about the supplier finance arrangements of an entity that would enable users to assess the effects of these arrangements on the liabilities and cash flows, and the exposure to liquidity risk.

Under the amendments, entities also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement.

The amendments also add supplier finance arrangements as an example to the existing disclosure requirements in PFRS 7 on factors an entity might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard applies to all insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.
 - PFRS 17 aims to increase transparency and to reduce diversity in the accounting for insurance contracts. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and simplified approach (the premium allocation approach) mainly for short-duration contracts.

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the International Accounting Standards Board (IASB).

PFRS 17 is effective for annual reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

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

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

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

3. Use of Judgments and Estimates

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2022.

4. Segment Information

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

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

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country and in Malaysia.
- b. Lease of acquired real estate properties and equipment for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- c. Sales on wholesale or retail and operation of service stations, retail outlets, convenience stores and the like.
- d. Export sales of various petroleum and non-fuel products to other countries such as China, Indonesia, India, Taiwan, Singapore, South Korea, Bangladesh, and Japan.
- e. Provision of technical information, assistance and advice relating to the uses, handling and disposition of the products, loaned equipment and the machinery and equipment necessary or appropriate for the customers' needs.

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

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended September 30, 2023, December 31, 2022 and September 30, 2022:

	Petroleum	Leasing**	Marketing	Elimination/ Others**	Total
September 30, 2023					
Revenue:					
External sales	P585,112	P862	P833	P476	P587,283
Inter-segment sales	238,077	299	-	(238,376)	-
Operating income	26,715	165	22	106	27,008
Net income	10,485	94	32	(1,103)	9,508
Assets and liabilities:					
Segment assets*	510,634	9,943	689	(65,237)	426,029
Segment liabilities*	379,913	4,531	144	(33,711)	350,877
Other segment information:					
Property, plant and equipment - net	164,728	-	86	2,632	167,446
Depreciation and amortization	9,403	63	10	(50)	9,426
Interest expense	13,806	211	1	(312)	13,706
Interest income	1,003	171	11	(189)	996
Income tax expense	2,992	30	6	(11)	3,017

*excluding deferred tax assets and liabilities

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

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

*excluding deferred tax assets and liabilities

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

	Petroleum	Leasing**	Marketing	Elimination/Ot hers**	Total
September 30, 2022					
Revenue:					
External sales	P628,939	P872	P959	P368	P631,138
Inter-segment sales	274,632	301	-	(274,933)	-
Operating income	16,261	182	37	18	16,498
Net income	8,790	100	44	(755)	8,179
Assets and liabilities:					
Segment assets*	508,493	9,877	647	(53,051)	465,966
Segment liabilities*	364,057	4,603	133	(21,621)	347,172
Other segment information:					
Property, plant and equipment	170,595	-	91	739	171,425
Depreciation and amortization	8,639	63	11	(129)	8,584
Interest expense	8,937	218	1	(331)	8,825
Interest income	608	169	2	(229)	550
Income tax expense	1,438	30	7	(13)	1,462

*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 P238,376, P378,442 and P274,933 for the periods ended September 30, 2023, December 31, 2022, and September 30, 2022, respectively.

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

	Retail	Lube	Gasul	Industrial	Others	Total
September 30, 2023						
Revenue	P270,905	P4,824	P24,257	P110,157	P174,969	P585,112
Property, plant and equipment	7,786	43	140	48	156,711	164,728
Capital expenditures	1,251	16	5	26	3,560	4,858
December 31, 2022						
Revenue	P395,183	P6,403	P33,126	P156,307	P263,693	P854,712
Property, plant and equipment	7,920	27	149	23	160,880	168,999
Capital expenditures	1,170	4	-	1	12,360	13,535
September 30, 2022						
Revenue	P299,781	P4,817	P24,878	P114,075	P185,388	P628,939
Property, plant and equipment	8,071	29	158	13	162,324	170,595
Capital expenditures	1,238	4	-	2	14,810	16,054

Geographical Segments

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

	September 30, 2023	December 31, 2022	September 30, 2022
Local	P345,465	P349,713	P356,900
International	110,564	108,546	109,066
	P456,029	P458,259	P465,966

Disaggregation of Revenue

The following table shows the disaggregation of revenue by geographical segments and the reconciliation of the disaggregated revenue with the Group's business segments for the periods ended September 30, 2023, December 31, 2022, and September 30, 2022:

	Petroleum	Leasing**	Marketing	Elimination/ Others**	Total
September 30, 2023					
Local	P301,178	P1,161	P833	(P828)	P302,344
Export/international	522,011	-	-	(237,072)	284,939
December 31, 2022					
Local	P412,845	P1,570	P1,221	(P2,893)	P412,743
Export/international	819,912	-	-	(375,017)	444,895
September 30, 2022					
Local	P295,788	P1,173	P959	(P988)	P296,932
Export/international	607,783	-	-	(273,577)	334,206

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

5. Property, Plant and Equipment

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

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
January 1, 2022	P24,563	P206,821	P20,087	P6,330	P4,324	P15,901	P278,026
Additions	127	2,150	265	498	-	2,893	5,933
Acquisition of subsidiary	-	-	-	261	5	-	266
Disposals/reclassifications	1,724	3,049	(206)	29	48	(5,200)	(556)
Reclassification to/from investment property	222	-	-	-	32	-	254
Currency translation adjustment	480	824	332	81	63	36	1,816
December 31, 2022 (Audited)	27,116	212,844	20,478	7,199	4,472	13,630	285,739
Additions	262	1,081	171	1,620	16	1,924	5,074
Disposals/reclassifications	635	9,699	91	16	193	(10,568)	66
Currency translation adjustment	9	(1,204)	(469)	(129)	(91)	(36)	(1,920)
September 30, 2023 (Unaudited)	28,022	222,420	20,271	8,706	4,590	4,950	288,959
Accumulated Depreciation and Amortization:							
January 1, 2022	14,794	70,171	14,752	5,434	1,273	-	106,424
Depreciation	966	6,543	1,108	238	93	-	8,948
Acquisition of subsidiary	-	-	-	45	2	-	47
Disposals/reclassifications	(46)	-	(518)	(50)	4	-	(610)
Reclassification to/from investment property	(106)	-	-	-	-	-	(106)
Currency translation adjustment	263	349	208	63	-	-	883
December 31, 2022 (Audited)	15,871	77,063	15,550	5,730	1,372	-	115,586
Depreciation	742	5,374	724	217	76	-	7,133
Disposals/reclassifications	(266)	-	(74)	(18)	55	-	(303)
Currency translation adjustment	7	(521)	(297)	(92)	-	-	(903)
September 30, 2023 (Unaudited)	16,354	81,916	15,903	5,837	1,503	-	121,513
Carrying Amount:							
December 31, 2022 (Audited)	P11,245	P135,781	P4,928	P1,469	P3,100	P13,630	P170,153
September 30, 2023 (Unaudited)	11,668	140,504	4,368	2,869	3,087	4,950	167,446

Certain fully depreciated property, plant and equipment with aggregate costs of P31,415 and P29,924 as of September 30, 2023 and December 31, 2022, respectively, are still being used in the Group's operations.

Capital Commitments

As of September 30, 2023 and December 31, 2022, the Group has outstanding commitments to acquire property, plant and equipment amounting to P7,550 and P6,061, respectively.

6. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended September 30, 2023 and December 31, 2022 follow:

	<i>Note</i>	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	2023	P 34	P -	P893	P -	On demand; interest bearing	Unsecured; no impairment
		2022	58	-	894	-		
	<i>a</i>	2023	-	-	33	-	On demand; non-interest bearing	Unsecured; no impairment
		2022	-	-	-	-		
Intermediate Parent	<i>b,e,f,h,i</i>	2023	21	146	22	462	On demand; non-interest bearing	Unsecured; no impairment
		2022	20	207	16	453		
Under Common Control	<i>k</i>	2023	-	103	-	3,395	On demand; interest bearing	Unsecured; no impairment
		2022	-	35	-	3,345		
	<i>b,c,d, h,i,j,k</i>	2023	12,997	1,856	6,012	2,599	On demand; non-interest bearing	Unsecured; no impairment
		2022	16,473	4,625	6,278	2,178		
Associate	<i>b,h,i</i>	2023	181	52	100	94	On demand; non-interest bearing	Unsecured no impairment
		2022	200	100	90	56		
Joint Venture	<i>c,g,h</i>	2023	-	47	1	-	On demand; non-interest bearing	Unsecured no impairment
		2022	-	55	2	-		
Associates and Joint Ventures under Common Control	<i>l</i>	2023	-	89	-	1,100	Short-term: interest bearing	Unsecured no impairment
		2022	-	101	-	2,865		
	<i>b,h,i,l</i>	2023	238	-	85	2	On demand; non-interest bearing	Unsecured no impairment
		2022	365	-	71	19		
			2023	P13,471	P2,293	P7,146	P7,652	
			2022	P17,116	P5,123	P7,351	P8,916	

- a. The Parent Company has interest bearing advances to Petron Corporation Employees' Retirement Plan (PCERP), included as part of "Trade and other receivables - net" account in the consolidated interim statements of financial position, for some investment opportunities.
- b. Sales pertain to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- c. Purchases pertain to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture, associate and various SMC subsidiaries.
- d. The Parent Company entered into various lease agreements with San Miguel Properties, Inc. for its office space covering 6,747 square meters and certain parcels of land where service stations are located.
- e. The Parent Company has existing lease agreements with SMC covering certain parcels of land where service stations are located.
- f. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- g. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services to Petron Fuel International Sdn Bhd (PFISB) and another venturer.
- h. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

- i. Amounts owed to related parties consist of trade and non-trade payables.
- j. In 2015, the New Ventures Realty Corporation (NVRC) leased out certain parcels of its land to SMC Consolidated Power Corporation for a period of 25 years.
- k. Amounts owed to entities under common control include interest bearing advances from San Miguel Insurance Company Ltd.
- l. Amounts owed to associate of entities under common control include interest bearing short-term loans payable to Bank of Commerce.

7. Loans and Borrowings

Short-term Loans

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

Balance as of January 1, 2023	P137,886
Loan availments	165,523
Loan repayments	(180,472)
Currency translation adjustment	(165)
Balance as of September 30, 2023	P 122,772

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 4 to 180 days and annual interest ranging from 3.71% to 7.35% for the period ended September 30, 2023 and 5 to 181 days and annual interest ranging 1.28% to 6.88% for the period ended December 31, 2022. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

Long-term Loans

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

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

As of September 30, 2023 and December 31, 2022 the Group has complied with the provisions of its debt agreements.

8. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

Foreign Currency Risk

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

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

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

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

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

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

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

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

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

	September 30, 2023		December 31, 2022	
	US dollar (in millions)	Philippine peso Equivalent	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	417	23,573	566	31,576
Trade and other receivables	701	39,675	676	37,701
Other assets	36	2,058	25	1,383
	1,154	65,306	1,267	70,660
Liabilities				
Short-term loans	164	9,272	279	15,531
Liabilities for crude oil and petroleum products	953	53,921	844	47,122
Long-term debt (including current maturities)	937	53,014	691	38,521
Other liabilities	156	8,870	311	17,344
	2,210	125,077	2,125	118,518
Net foreign currency -denominated monetary liabilities	(1,056)	(59,771)	(858)	(47,858)

The Group incurred net foreign currency exchange losses amounting to P1,749 and P5,911 for the periods ended September 30, 2023 and 2022, respectively, which were mainly countered by mark-to-market and hedging gains or losses (Note 9). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	PhP to US\$
September 30, 2023	56.575
December 31, 2022	55.755
September 30, 2022	58.625

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of September 30, 2023 and December 31, 2022:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
September 30, 2023				
Cash and cash equivalents	(P295)	(P343)	P295	P343
Trade and other receivables	(77)	(761)	77	761
Other assets	(14)	(33)	14	33
	(386)	(1,137)	386	1,137
Short-term loans	-	164	-	(164)
Liabilities for crude oil and petroleum products	377	1,232	(377)	(1,232)
Long-term debts (including current maturities)	937	703	(937)	(703)
Other liabilities	24	160	(24)	(160)
	1,338	2,259	(1,338)	(2,259)
	P952	P1,122	(P952)	(P1,122)

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

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 P398 and P385 for the period ended September 30, 2023 and for the year ended December 31, 2022, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

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

September 30, 2023	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P26,343	P6,938	P18,800	P5,625	P9,000	P -	P66,706
Interest rate	4.5% - 7.8%	4.6% - 7.5%	3.4% - 8.1%	7.2% - 7.5%	4.3%		
Floating Rate							
US\$ denominated (expressed in Php)	-	14,451	16,269	12,632	7,226	-	50,578
Interest rate*		1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin	1, 3, 6 mos. SOFR + margin		
JP¥ denominated (expressed in Php)	1,624	812	-	-	-	-	2,436
Interest rate*	1, 3, 6 mos. TONA + margin	1, 3, 6 mos. TONA + margin					
	P27,967	P22,201	P35,069	P18,257	P16,226	P -	P119,720

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

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

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

Credit Risk

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

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

	September 30, 2023	December 31, 2022
Cash in banks and cash equivalents	P27,121	P35,819
Derivative assets	1,935	1,438
Trade and other receivables - net	87,868	81,979
Noncurrent deposits	124	127
	P117,048	P119,363

Cash and Cash Equivalents, Derivative Assets and Noncurrent Deposits

Cash and cash equivalents, derivative assets and noncurrent deposits are held with counterparties with high external credit ratings. The credit quality of these financial assets is considered to be high grade. Impairment on cash and cash equivalents, derivative assets and noncurrent deposits has been measured

on a 12-month Expected Credit Loss (ECL) basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents, derivative assets and noncurrent deposits have low credit risk based on the external credit ratings of its counterparties.

Investments in Debt Instruments

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

Trade and Other Receivables

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

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

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

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P5,716 and P5,416 as of September 30, 2023 and December 31, 2022, respectively. These securities may only be called on or applied upon default of customers.

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

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

September 30, 2023

	Financial Assets at Amortized Cost			Financial Assets at Fair Value Through Profit or Loss (FVPL)	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired			
Cash in banks and cash equivalents	P27,121	P -	P -	P -	P -	P27,121
Trade and other receivables	-	87,868	940	-	-	88,808
Derivative assets not designated as cash flow hedge	-	-	-	1,935	-	1,935
Long-term receivables	-	-	310	-	-	310
Noncurrent deposits	124	-	-	-	-	124
	P27,245	P87,868	P1,250	P1,935	P -	P118,683

December 31, 2022

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

Liquidity Risk

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

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of September 30, 2023 and December 31, 2022.

September 30, 2023	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P28,633	P28,633	P28,633	P -	P -	P -
Trade and other receivables - net	87,868	87,868	87,868	-	-	-
Derivative assets (including noncurrent portion)	1,935	1,935	1,935	-	-	-
Proprietary membership shares	385	385	-	-	-	385
Noncurrent deposits	124	124	-	-	3	121
Financial Liabilities						
Short-term loans	122,772	124,532	124,532	-	-	-
Liabilities for crude oil and petroleum products	56,644	56,644	56,644	-	-	-
Trade and other payables*	16,738	16,738	16,738	-	-	-
Derivative liabilities (including noncurrent portion)	2,726	2,726	2,726	-	-	-
Long-term debts (including current maturities)	118,215	138,268	35,065	27,696	75,507	-
Lease liability (including current portion)	15,632	25,107	2,273	2,059	6,028	14,747
Cash bonds	440	441	-	425	16	-
Cylinder deposits	675	675	-	-	-	675
Other noncurrent liabilities**	49	49	-	11	22	16

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

**excluding cash bonds, cylinder deposits and derivative liabilities

December 31, 2022	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P37,183	P37,183	P37,183	P -	P -	P -
Trade and other receivables - net	81,979	81,979	81,979	-	-	-
Derivative assets (including noncurrent portion)	1,438	1,438	1,401	37	-	-
Proprietary membership shares	352	352	352	-	-	-
Noncurrent deposits	127	127	-	-	-	127
Financial Liabilities						
Short-term loans	137,886	139,058	139,058	-	-	-
Liabilities for crude oil and petroleum products	51,067	51,067	51,067	-	-	-
Trade and other payables*	13,344	13,344	13,344	-	-	-
Derivative liabilities (including noncurrent portion)	723	723	723	-	-	-
Long-term debts (including current maturities)	107,061	125,710	20,123	35,913	69,674	-
Lease liability (including current portion)	15,094	24,534	2,138	2,015	5,486	14,895
Cash bonds	420	420	-	403	17	-
Cylinder deposits	736	736	-	-	-	736
Other noncurrent liabilities**	45	46	-	6	24	16

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

**excluding cash bonds, cylinder deposits and derivative liabilities

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging

transactions, if prices go down, hedge positions may show mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show mark-to-market gains; however, any gain in the mark-to-market position is offset by the resulting lower selling price.

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

Other Market Price Risk

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

Capital Management

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

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

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

	September 30, 2023	December 31, 2022
Total assets	P 456,927	P460,071
Total liabilities	355,052	346,521
Total equity	101,875	113,550
Debt to equity ratio	3.5:1	3.1:1
Assets to equity ratio	4.5:1	4.1:1

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

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

9. Financial Assets and Financial Liabilities

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

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

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial

measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

component on the date of issue.

Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P28,633	P28,633	P37,183	P37,183
Trade and other receivables – net	87,868	87,868	81,979	81,979
Noncurrent deposits	124	124	127	127
FA at amortized cost	116,625	116,625	119,289	119,289
Derivative assets designated as cash flow hedge				
FA at FVOCI	-	-	181	181
Proprietary membership shares	385	385	352	352
Derivative assets not designated as cash flow hedge	1,935	1,935	1,257	1,257
FA at FVPL	2,320	2,320	1,609	1,609
Total Financial Assets	P118,945	P118,945	P121,079	P121,079
Financial liabilities (FL):				
Short-term loans	P122,772	P122,772	P137,886	P137,886
Liabilities for crude oil and petroleum products	56,644	56,644	51,067	51,067
Trade and other payables*	16,738	16,738	13,344	13,344
Long-term debts including current portion	118,215	118,215	107,061	107,061
Cash bonds	440	440	420	420
Cylinder deposits	675	675	736	736
Other noncurrent liabilities**	49	49	45	45
Other FL	315,533	315,533	310,559	310,559
Derivative liabilities not designated as cash flow hedge	2,726	2,726	723	723
Total Financial Liabilities	P318,259	P318,259	P311,282	P311,282

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

**excluding cash bonds, cylinder deposits and derivative liabilities

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

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

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Mark-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties.

The fair values of derivative instruments designated as cash flow hedges are computed by discounting the future cash flows and using the valuation model based on applicable market rates of similar instruments.

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

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

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used as of September 30, 2023 and December 31, 2022 are 9.39% and 7.54% respectively.

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

Derivative Financial Instruments and Hedge Accounting

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

Freestanding Derivatives

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

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

Cash Flow Hedges

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

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

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to consolidated interim

statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect consolidated interim statements of income.

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

Embedded Derivatives

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

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

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

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

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

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

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

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

September 30, 2023	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$-	P-	P-	Financial assets at FVPL, Derivative liabilities	P-	P-	P-	P-	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	-	-	-	Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	-	35	-	(12)	Interest expense and other financing charges, Other income (expenses) - net
Interest rate risk									
Interest rate collar	-	-	-	Derivative liabilities, Other noncurrent liabilities	-	29	-	(29)	Interest expense and other financing charges
<hr/>									
December 31, 2022	Notional amount (in million)	Carrying Amount		Line item in the consolidated statement of financial position where the hedging instrument is included	Changes in the fair value of the hedging instrument recognized in OCI	Cost of hedging recognized in OCI	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in the consolidated statement of income affected by the reclassification
		Assets	Liabilities						
Foreign currency risk:									
Call spread swaps	US\$-	P-	P-	Financial assets at FVPL, Other noncurrent assets, Derivative liabilities, Other noncurrent liabilities	P-	(P20)	P-	P13	Other income (expenses) - net
Foreign currency and interest rate risks:									
Cross currency swap	30	118	-	Derivative liabilities, Other noncurrent liabilities	118	(161)	(171)	51	Interest Expense and other financing charges, and Other income (expenses) - net
Interest rate risk									
Interest rate collar	45	63	-	Derivative liabilities, Other noncurrent liabilities	63	17	-	(17)	Interest expense and other financing charges

No ineffectiveness was recognized in the 2023 and 2022 consolidated statements of income.

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

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

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Cross Currency Swaps. As of September 30, 2023, the Company has an outstanding cross currency swap with notional amount of US\$20 and with maturity in May 2024. As of September 30, 2023 and December 31, 2022, the net fair value of these cross currency swaps amounted to P83 and nil, respectively.

Interest Rate Collar As of September 30, 2023, the Company has an outstanding interest rate collar with notional amount of US\$30 and with maturity in May 2024. As of September 30, 2023 and December 31, 2022, the net fair value of this interest rate collar amounted to P25 and nil, respectively.

Currency Forwards. As of September 30, 2023 and December 31, 2022, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$995 and US\$894 million, respectively, and with various maturities. As of September 30, 2023 and December 31, 2022, the net fair value of these currency forwards amounted to (P235) and P28, respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. Total outstanding equivalent notional quantity covered by the commodity swaps were 57.5 million barrels and 31.4 million barrels as of September 30, 2023 and December 31, 2022 respectively. The estimated net receipts for these transactions amounted to P666 and P506 as of September 30, 2023 and December 31, 2022, respectively.

Commodity Options. As of September 30, 2023 and December 31, 2022, the Group has no outstanding 3-way options entered as hedge of forecasted purchases of crude oil.

Embedded Derivatives

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

As of September 30, 2023 and December 31, 2022, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of September 30, 2023 and December 31, 2022, the net fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2023 and December 31, 2022, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (P568) and P4,673 respectively.

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method, as of September 30, 2023 and December 31, 2022.

	Level 2	
	September 30, 2023	December 31, 2022
Financial Assets:		
FVPL	P385	P352
Derivative assets	1,935	1,438
Financial Liabilities:		
Derivative liabilities	(2,726)	(723)

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

10. Significant Transactions During the Period

a. Full Redemption of US\$500 Million Senior Perpetual Capital Securities (SPCS)

On January 19, 2023, the Parent Company redeemed US\$22.47 million from US\$500 million SPCS issued in 2018 at a purchase price of US\$927 per US\$1,000 in principal amount.

On July 19, 2023, the remaining outstanding SPCS with an aggregate amount of US\$477.53 million was fully redeemed at par value of P25,983. Following such redemption, distributions ceased to accrue and the redeemed securities were cancelled and delisted from the Singapore Exchange Securities Trading Limited.

b. Loan Drawdowns

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

On February 17, 2023, Parent Company has upsized its US\$550 million term loan facility to US\$669 million and drew US\$88 million from the additional US\$119 loan facility on May 15, 2023 to fully preterminate the US\$800 million long-term loan facility. On August 14, 2023, the remaining US\$31 million was drawn. Proceeds will be used to redeem the Parent Company's P7,000 Series B Bonds maturing on October 27, 2023.

On July 13, 2023, The Parent Company made a full drawdown of US\$225 million term loan which was used to partially fund the redemption of US\$500 million SPCS. The facility was signed on March 28, 2023, which subsequently increased from US\$150 million to US\$225 million on June 8, 2023. The facility is subject to a floating interest based on SOFR plus spread, repriced every 1, 3, or 6 months and payable semi-annually over 5 years starting on March 28, 2025.

c. Reversal of Appropriation of Retained Earnings

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

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

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

e. Reissuance of 14,000,000 Series 4 Preferred Shares

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

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

The net proceeds were used to partly fund the full redemption on July 19, 2023 of the remaining US\$477.53 million SPCS issued in 2018.

11. Basic and Diluted Earnings -per Share

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

	2023	2022
Net income attributable to equity holders of the Parent Company	P8,750	P7,139
Dividends on preferred shares for the period	(937)	(348)
Distributions to the holders of capital securities for the period	(3,215)	(3,139)
Net income attributable to common shareholders of the Parent Company (a)	P4,598	P3,652
Weighted average number of common shares outstanding (in millions) (b)	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	P0.49	P0.39

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

12. Cash Dividends and Distributions

Dividends

The BOD of the Parent Company approved the declaration of cash dividends for common, Series 3, and Series 4 preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
2023				
Common	P0.10	March 6, 2023	March 20, 2023	April 4, 2023
Series 3A	17.17825	May 10, 2023	May 31, 2023	June 26, 2023
Series 3B	17.84575	May 10, 2023	May 31, 2023	June 26, 2023
Series 3A	17.17825	August 1, 2023	August 31, 2023	September 25, 2023
Series 3B	17.84575	August 1, 2023	August 31, 2023	September 25, 2023
Series 4A	16.76975	August 1, 2023	September 14, 2023	October 9, 2023
Series 4B	16.99300	August 1, 2023	September 14, 2023	October 9, 2023
Series 4C	17.71525	August 1, 2023	September 14, 2023	October 9, 2023
2022				
Series 3A	P17.17825	August 1, 2022	August 31, 2022	September 26, 2022
Series 3B	17.84575	August 1, 2022	August 31, 2022	September 26, 2022
Series 3A	17.17825	November 8, 2022	November 29, 2022	December 26, 2022
Series 3B	17.84575	November 8, 2022	November 29, 2022	December 26, 2022
Series 3A	17.17825	November 8, 2022	March 2, 2023	March 27, 2023
Series 3B	17.84575	November 8, 2022	March 2, 2023	March 27, 2023

Distributions

SPCS

Payments of distributions were made on respective dates: January 18, 2023 (P841), April 18, 2023 (P1,224), July 18, 2023 (P796), January 18, 2022 (P787), April 18, 2022 (P1,140), July 18, 2022 (P864), and October 18, 2022 (P1,286).

RPS

Payments of distributions were made on respective dates February 10, 2023 (P50), February 27, 2023 (P3), March 22, 2023 (P64), May 10, 2023 (P51), May 26, 2023 (P3), June 22, 2023 (P65), August 10, 2023 (P51), September 22, 2023 (P67), February 10, 2022 (P46), March 1, 2022 (P3), March 22, 2022 (P62), May 10, 2022 (P47), May 27, 2022 (P3), June 22, 2022 (P64), August 10, 2022 (P50), August 30, 2022 (P3), September 22, 2022 (P69), November 10, 2022 (P53), November 25, 2022 (P3), and December 22, 2022 (P65).

13. Commitments and Contingencies

Supply and Lease Agreements

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

The Petron Malaysia Refining & Marketing Bhd (PMRMB) acquires crude oil and condensate for the Port Dickson Refinery from various sources through a combination of term purchase contracts and spot market purchases. The PMRMB has a term supply contract for Tapis crude oil and Terengganu condensate with Exxon Mobile Exploration and Production Malaysia Inc. ("EMEPMI") for a period of 2 years until March 2024 supplemented by other short-term supply contracts and spot crude purchases. As

of September 30, 2023, about 51% of the crude and condensate volume is sourced from EMEPMI, while the balance from other term and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks. PMRMB also utilizes Port Dickson Refinery spare capacity for crude processing arrangement of third parties to optimize utilization and benefits.

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

Lease Agreements with Philippine National Oil Company (PNOC).

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P191, starting 2017, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised every fifth year in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to an annual escalation clause of 3% for the four years following the re-appraisal. Also, as at September 30, 2023 and December 31, 2022, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Oil Spill Incident in Guimaras

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases were pending as at September 30, 2023. In the course of plaintiffs’ presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City (CA). On January 9, 2020, the CA issued a Resolution granting plaintiffs’ motion for reconsideration of the earlier resolution denying their petition and ordering the Parent Company to file its comment on plaintiffs’ petition within 10 days. On February 6, 2020, the Parent Company filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far. As of September 30, 2023 and December 31, 2022, the Parent Company has not set up any provision related to this case because while the case is still pending, the Parent Company believes the resolution will be in its favor.

Other Proceedings

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

14. Events After the Reporting Period

a. Dividends and Distributions

- i. On October 18, 2023, the Parent Company paid distributions amounting to US\$16.36 million (P1,238) to the holders of US\$550 million SPCS.
- ii. On November 7, 2023, the BOD of the Parent Company approved the declaration of cash dividends for preferred shareholders with the following details:

Type	Per Share	Date of Record	Date of Payment
Series 3A	17.17825	November 29, 2023	December 26, 2023
Series 3B	17.84575	November 29, 2023	December 26, 2023
Series 3A	17.17825	March 1, 2024	March 25, 2024
Series 3B	17.84575	March 1, 2024	March 25, 2024
Series 4A	16.76975	December 13, 2023	January 8, 2024
Series 4B	16.99300	December 13, 2023	January 8, 2024
Series 4C	17.71525	December 13, 2023	January 8, 2024
Series 4A	16.76975	March 13, 2024	April 8, 2024
Series 4B	16.99300	March 13, 2024	April 8, 2024
Series 4C	17.71525	March 13, 2024	April 8, 2024

b. Redemption of P7,000 Series B Bonds

On October 27, 2023, the Parent Company redeemed its P7,000 Series B Bonds issued in 2016.

15. Other Matters

a. Lease Agreements with PNOC

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

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

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

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

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

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

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2023.
- d. The effect of Covid-19 and Russia-Ukraine conflict in the performance of the Group as of year-to-date September 30, 2023 are discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

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

Gross Domestic Product (GDP)

The PH economy grew at 5.9% in the third quarter of 2023, an improvement from the 4.3% growth in the second quarter despite the elevated prices of goods. The country outperformed other major emerging Asian economies with GDP growth of Vietnam, Indonesia China, and Malaysia at 5.3%, 4.9%, 4.9%, and 3.3%, respectively.

<u>Economic growth (in percentage)</u>	<u>3Q 2022</u>	<u>3Q 2023</u>
GDP	7.7	5.9
<i>By Expenditure</i>		
Household Consumption	8.0	5.0
Government Consumption	0.7	6.7
Capital Formation	18.2	(1.6)
Exports	13.6	2.6
Imports	18.5	(1.3)
<i>By Industry</i>		
Agriculture	2.1	0.9
Industry	5.8	5.5
Services	9.3	6.8

The call to catch up expenditure plans addressed the contraction in 2Q 2023 in government spending picking up to 6.7% and driving the growth on the demand side. Household consumption also grew at 5.0%, albeit slower mainly due to inflation. Gross capital formation, or the net accumulation of capital goods like equipment, transportation assets, and electricity, declined 1.6%, largely due to the substantial drawdown in inventories and the slowdown in durable equipment. Imports of goods and services also posted a contraction of 1.3% while the growth of exports is slower at 2.6% as compared to 3Q 2022.

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

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

91-day T-Bill rates averaged 5.3% in the first nine months of 2023, higher compared to 1.5% in the same period last year. With the US Federal Reserve pausing its rate hikes, the Bangko Sentral ng Pilipinas (BSP) kept its key policy rate unchanged at 6.25% since March 2023.

Peso-Dollar Exchange Rate

The peso averaged P55.5/\$ as of ytd-September, a 3.42% depreciation from P53.6/\$ in the same period last year. Weakness in peso is due in large part to the country's high current account deficit and the narrower interest rate differential between the US Federal Reserve and BSP policy rates.

Inflation

The rate of increase in prices of commodities and services accelerated to 6.6% as of ytd-September, from 5.1% in the same period last year. Its surge was driven primarily by costlier food prices,

specifically rice inflation even with the imposition of price caps. Price pressures are also stemming from higher prices of fuel and electricity, as well as a weakening peso.

Industry Oil Demand

Oil demand¹ in the country grew by 6.6% to 80,956 MB in 1H 2023 from 75,962 MB in 1H 2022. The return to normality of the daily economic activities and lifting of the COVID-related state of public health emergency throughout the country contributed to the growth in demand for petroleum products.

Oil Market

Oil prices corrected this year from the elevated levels in 2022 due to the Russia-Ukraine conflict. Year-on-year prices of Dubai declined by 19% to \$81.6/bbl in ytd-September 2023 vs. \$100.2/bbl in the same period last year. Regional product cracks also narrowed with gasoline cracks declining from \$22.0/bbl in ytd-September 2022 to \$18.0/bbl in ytd-September 2023, diesel cracks from \$38.1/bbl to \$24.3/bbl, and kero-jet cracks from \$29.3/bbl to \$22.2/bbl.

RECENT LEGISLATION THAT MAY IMPACT ON THE OIL INDUSTRY

LPG Industry Regulation Act

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

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

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

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

¹ Based on DOE data. Includes Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG only. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, LPG, Diesel, Asphalt, and Petcoke. 1H 2023 is the latest published data.

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

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

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

Existing Government Regulations

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

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

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

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

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

Electric Vehicle Industry Development Act (“EVIDA Law”). RA 11697 lapsed into law on April 15, 2022. The law provides for a framework for the regulation of Electric Vehicle (EV) and Electric Vehicle Charging Stations (“EVCS”) in the Philippines. The law mandates the creation of a

Comprehensive Roadmap of the Electric Vehicle Industry (“CREVI”), which will serve as the main development plan for the EV industry. Under the CREVI, select gasoline stations will be identified, which will be required to designate dedicated spaces for the installation of EVCS. The law also mandates mandatory EV share (at least 5% of their fleet) of entities such as commercial logistics companies, TNVs, public transport operators, government agencies within the timeframe to be indicated in the CREVI. The law’s implementing rules and regulations was signed on September 2, 2022.

Tax Reform for Acceleration and Inclusion (the “TRAIN Law”) and House Bill No. 10483. Republic Act 10963 imposes phased increase in excise taxes on petroleum products from 2018-2020. Schedule of increase is P2.65-2-1/li per year for gasoline, P2.50-2-1.50/li for diesel and fuel oil, P1-1-1/kg for LPG, and P0.33-0-0/li for jet fuel. The incremental excise tax will further be subject to 12% VAT. Higher excise taxes can potentially constrain demand growth especially for LPG given there are substitutes such as charcoal, kerosene and electric, and Gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program for diesel, gasoline and kerosene to help curb illicit trading of fuel products. While the cost for the fuel marker would be shouldered by the government in the initial year of implementation, this cost was eventually passed on to oil companies beginning 2020 which resulted in higher fuel prices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Department Circular 2021-07-0023. DOE issued this circular on July 2, 2021 providing for a framework for the adoption and development of Electric Vehicles (“EVs”) and Electric Charging Stations (“EVCs”) in the Philippines, including installation of EVCs in retail stations

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

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

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

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

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

PETRON CORPORATION AND SUBSIDIARIES**RECEIVABLES**

As of September 30, 2023

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	P59,749
Accounts Receivable – Non-Trade	28,119
Total Accounts Receivable - Net	P87,868

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P56,236
	31 – 60 days	1,910
	61 – 90 days	353
	Over 90 days	2,008
Total		60,507
Allowance for doubtful accounts		(758)
Accounts Receivable – Trade		P59,749

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

Financial Performance

YTD September 2023 vs YTD September 2022

Petron Corporation's consolidated net income for the first nine months of 2023 closed at P9.51 billion, 16% higher than last year's (LY) P8.18 billion. Incremental margins from volume growth boosted earnings this year.

	Period Ended		Horizontal Analysis		Vertical Analysis	
	2023	2022	Amount	%	2023	2022
	(in Php Millions)					
Sales	587,283	631,138	(43,855)	(7%)	100%	100%
Cost of Goods Sold	(548,913)	(604,374)	(55,461)	(9%)	93%	96%
Gross Profit	38,370	26,764	11,606	43%	7%	4%
Selling and Administrative Expenses	(12,617)	(11,375)	1,242	11%	2%	2%
Other Operating Income	1,255	1,109	146	13%	0%	0%
Interest Expense and Other Financing Charges	(13,706)	(8,825)	4,881	55%	2%	1%
Interest Income	996	550	446	81%	0%	0%
Share in Net Income of Associate & JV	83	49	34	68%	0%	0%
Other Income (Expense) - net	(1,856)	1,369	(3,225)	(236%)	0%	0%
Income before Income Tax	12,525	9,641	2,884	30%	2%	2%
Income Tax Expense	(3,017)	(1,462)	1,555	106%	1%	0%
Net Income	9,508	8,179	1,329	16%	2%	1%
Attributable to Equity Holders of the Parent Company	8,750	7,139	1,611	23%	1%	1%
Attributable to Non-controlling Interests	758	1,040	(282)	(27%)	0%	0%
	9,508	8,179	1,329	16%	2%	1%
Sales Volume in million barrels	93,597	80,435	13,162	16%		

The following factors affected the Group's performance during the first three quarters of 2023:

Consolidated Sales Volume grew by 16% to **93.60 million barrels (MMB)** as demand across trades increased especially for the retail and aviation industries for both Philippines and Malaysia.

Despite the increase in sales volume, **Net Sales** decreased by 7% to **₱ 587.28 billion** from **₱ 631.14 billion LY** due to the further correction of regional MOPS prices from extraordinarily high prices last year brought about by the Russia-Ukraine war.

Cost of Goods Sold (CGS) also dropped to **₱ 548.91 billion**, 9% lower than LY's **₱ 604.37 billion** traced to lower cost per liter with the 18% decline in the year-to-date average price of Dubai from **US\$100/bbl LY** to **US\$82/bbl** this year. The higher sales volume and the 4% depreciation of the Philippine Peso against the US Dollar partly cushioned the drop in prices.

Gross profit rose significantly by **43%** to **₱ 38.37 billion** attributable mainly to higher sales volume.

Selling and Administrative Expenses (OPEX) climbed **11%** from ₱ 11.38 billion LY to **₱ 12.62 billion** in 2023 owing primarily to more LPG cylinders purchased this year outsourced services and utilities, maintenance and repairs expenses particularly for service stations, and promotional activities.

Other Operating Income of **₱ 1.26 billion** was 13% higher than LY's ₱ 1.11 billion traced to higher rental income.

Interest Expense and Other Financing Charges ballooned to **₱ 13.71 billion**, a 55% increase from the ₱ 8.83 billion level in the same period in 2022 due to higher interest rates and borrowing levels.

Interest Income also went up by 81% to **₱ 996 million** from ₱ 550 million as interest rates rose, partly moderated by lower average placement level.

Equity in Net Earnings of an Associate and a Joint Venture (JV) amounted to **₱ 83 million** versus ₱ 49 million last year, representing the Group's share in net income of Petrogen Insurance Corporation (Associate) and Terminal Bersama Sdn. Bhd. (JV).

Other Expense - net amounted to **₱ 1.86 billion** as against Other Income – net amount of ₱ 1.37 billion registered in the first three quarters of 2022 on account of mark-to-market loss on commodity hedges and net forex-hedging loss posted this year versus gains recorded LY.

Income tax expense of **₱ 3.02 billion** more than doubled the previous year's ₱ 1.46 billion due to higher financial income before tax of Philippines operations and full utilization of tax incentives related to the expansion and modernization-related capital expenditures of Malaysia.

YTD September 2022 vs YTD September 2021

As of end third quarter 2022, Petron Corporation's consolidated net income reached **₱8.18 billion**, 64% above last year's (LY) ₱ 4.99 billion. Despite the price correction experienced during the quarter, regional refining cracks remained robust as demand continues to recover. This was also reflected in 37% higher sales volume which also contributed to the improvement in margins.

	Period Ended		Horizontal Analysis		Vertical Analysis	
	2022	2021	Amount	%	2022	2021
	(in Php Millions)					
Sales	631,138	291,573	339,565	116%	100%	100%
Cost of Goods Sold	(604,374)	(268,767)	335,607	125%	96%	92%
Gross Profit	26,764	22,806	3,958	17%	4%	8%
Selling and Administrative Expenses	(11,375)	(10,135)	1,240	12%	2%	3%
Other Operating Income	1,109	740	369	50%	0%	0%
Interest Expense and Other Financing Charges	(8,825)	(7,291)	1,534	21%	1%	3%
Interest Income	550	409	141	34%	0%	0%
Share in Net Income of Associate & JV	49	61	(12)	(19%)	0%	0%
Other Income (Expense) - net	1,369	(470)	1,839	(391%)	0%	0%
Income before Income Tax	9,641	6,120	3,521	58%	2%	2%
Income Tax Expense	(1,462)	(1,135)	327	29%	0%	0%
Net Income	8,179	4,985	3,194	64%	1%	2%
Attributable to Equity Holders of the Parent Company	7,139	4,416	2,723	62%	1%	2%
Attributable to Non-controlling Interests	1,040	569	471	83%	0%	0%
	8,179	4,985	3,194	64%	1%	2%
Sales Volume in million barrels	80,435	58,833	21,602	37%		

The following reasons contributed to the Group's improved performance during the period ending September 30, 2022:

Consolidated Sales Volume rose to **80.43 million barrels (MMB)**, 37% higher than 58.83 MMB volume LY. Improvement came from domestic sales as Retail, Supply and Commercial all posted double-digit growth manifesting higher fuel demand across trades and industries.

Net Sales more than doubled from ₱ 291.57 billion LY to **₱ 631.14 billion** brought about by the significant hike in regional MOPS prices as the Russia-Ukraine war continue to disrupt the flow of global supply. Growth in sales volume as well as the depreciation of the peso as against the US dollar further fueled the increase in revenue.

Likewise, **Cost of Goods Sold (CGS)** climbed to **₱ 604.37 billion** from ₱ 268.77 billion due to higher cost per liter, peso depreciation vs. the US dollar and increase in volume sold. Though the average price of Dubai dipped during the third quarter arising from fears of possible recession, year-to-date average remained elevated at US\$100/bbl versus US\$66/bbl LY mainly from supply concerns amidst rising global demand.

Gross profit increased by **17%** to **₹ 26.76 billion** primarily from higher refining cracks accompanied by increased refinery production during the period. These were partly offset by the decline in marketing margins from stiffer price competition among industry players and more expensive crude premiums.

Selling and Administrative Expenses (OPEX) was up by **12%** to **₹ 11.38 billion** against ₹ 10.14 billion in the same period LY due to higher terminalling and storage fees, IT-related support fees, donation, and employee costs.

Other Operating Income went up to **₹ 1.11 billion** from ₹ 740 million mainly from higher rental income.

Interest Expense and Other Financing Charges soared by **21%** to **₹ 8.83 billion** traced to higher borrowing level and average interest rate as against same period LY.

Interest Income was also higher at **₹ 550 million** from ₹ 409 million on account of increases in average placements and interest rates versus LY.

Equity in Net Earnings of an Associate and a Joint Venture (JV) was **₹ 49 million** versus ₹ 61 million last year, representing the Group's share in net income of Petrogen Insurance Corporation (Associate) and Terminal Bersama Sdn. Bhd. (JV).

Other Income - net amounted to **₹ 1.37 billion** as against ₹ 470 million Other Expense - net recognized in the 3rd quarter LY largely from mark-to-market gains on commodity hedges and net forex-hedging versus losses recognized LY.

Income tax expense amounted to **₹ 1.46 billion**, 29% higher than ₹ 1.14 billion in previous year due to higher financial income before tax.

Financial Position

September 2023 vs December 2022

	Horizontal Analysis				Vertical Analysis	
	Sep 30	Dec 31	Increase (Decrease)		Sep 30	Dec 31
	2023	2022	Amount	%	2023	2022
Cash and cash equivalents	28,633	37,183	(8,550)	(23%)	6%	8%
Financial assets at fair value	1,935	1,753	182	10%	0%	0%
Trade and other receivables – net	87,868	81,979	5,889	7%	19%	18%
Inventories	83,541	85,347	(1,806)	(2%)	18%	19%
Other current assets	42,010	37,025	4,985	13%	9%	8%
Total Current Assets	243,987	243,287	700	0%	53%	53%
Investment in shares of stock of an associate and joint venture	1,175	1,075	100	9%	0%	0%
Property, plant and equipment – net	167,446	170,153	(2,707)	(2%)	37%	37%
Right of Use	6,052	5,398	654	12%	1%	1%
Investment property – net	27,168	28,437	(1,269)	(4%)	6%	6%
Deferred tax assets - net	898	1,812	(914)	(50%)	0%	0%
Goodwill	8,118	8,509	(391)	(5%)	2%	2%
Other noncurrent assets – net	2,083	1,400	683	49%	0%	0%
Total Noncurrent Assets	212,940	216,784	(3,844)	(2%)	47%	47%
Total Assets	456,927	460,071	(3,144)	(1%)	100%	100%
Short term loans	122,772	137,886	(15,114)	(11%)	27%	30%
Liabilities for crude oil and petroleum products	56,644	51,067	5,577	11%	12%	11%
Trade and other payables	26,018	22,896	3,122	14%	6%	5%
Current portion of lease liability	1,449	1,380	69	5%	0%	0%
Derivative liabilities	2,726	723	2,003	high	1%	0%
Income tax payable	672	204	468	high	0%	0%
Current portion of long-term debt – net	27,881	13,399	14,482	high	6%	3%
Total Current Liabilities	238,162	227,555	10,607	5%	52%	49%
Long-term debt - net of current portion	90,334	93,662	(3,328)	(4%)	20%	20%
Retirement benefits liability	2,731	3,261	(530)	(16%)	1%	1%
Deferred tax liabilities - net	4,175	3,601	574	16%	1%	1%
Lease liability - net of current portion	14,183	13,714	469	3%	3%	3%
Asset retirement obligation	4,303	3,527	776	22%	1%	1%
Other noncurrent liabilities	1,164	1,201	(37)	(3%)	0%	0%
Total Noncurrent Liabilities	116,890	118,966	(2,076)	(2%)	26%	26%
Total Liabilities	355,052	346,521	8,531	2%	78%	75%

Forward

			Horizontal Analysis		Vertical Analysis	
	Sep 30	Dec 31	Increase (Decrease)		Sep 30	Dec 31
	2023	2022	Amount	%	2023	2022
Capital stock	9,485	9,485	-	-	2%	2%
Additional paid-in capital	40,988	37,500	3,488	9%	9%	8%
Capital securities	37,529	62,712	(25,183)	(40%)	8%	14%
Retained earnings	33,875	30,357	3,518	12%	7%	7%
Equity Reserves	(20,946)	(16,887)	(4,059)	24%	(5%)	(4%)
Treasury stock	(7,600)	(18,000)	10,400	(58%)	(2%)	(4%)
Total Equity Attributable to Equity Holders of the Parent Company	93,331	105,167	(11,836)	(11%)	20%	23%
Non-controlling Interests	8,544	8,383	161	2%	2%	2%
Total Equity	101,875	113,550	(11,675)	(10%)	22%	25%
Total Liabilities and Equity	456,927	460,071	(3,144)	(1%)	100%	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end September 2023 totaled **₱ 456.93 billion**, 1% or ₱ 3.14 billion lower than end-2022 balance of ₱ 460.07 billion. The decrease in total assets can be traced primarily to the reduced cash and cash equivalents level.

Cash and cash equivalents decreased by 23% to **₱ 28.63 billion** from ₱ 37.18 billion mainly on account of the redemption of US\$500 million Senior Perpetual Capital Securities (SPCS).

Financial assets at fair value went up to **₱ 1.94 billion** from ₱ 1.75 billion due to higher gains on outstanding commodity hedging transactions, partly offset by lower gains on outstanding currency hedges as well as the reclassification of stock investments to non-current asset.

Trade and other receivables - net increased by 7% to **₱ 87.87 billion** attributable to the higher government receivables of Parent company and foreign subsidiaries.

Other current assets increased by 13% to **₱ 42.01 billion** from additional creditable withholding taxes and excise claims related to sales to tax exempt entities.

Investment in shares of stock of an associate and joint venture increased by 9% to **₱ 1.18 billion** after the recognition of the share in net income and other comprehensive income for the period.

Right of Use asset went up by 12% to **₱ 6.05 billion** after recognition of additional leases for the period.

Deferred tax assets – net went down from ₱ 1.81 billion to **₱ 0.90 billion** owing to the temporary differences of inventory valuation and depreciation per tax accounting vis-a-vis financial reporting, application of Net Operating Loss Carry-Over (NOLCO) from prior years, offset by the Minimum Corporate Income Tax (MCIT) for the period.

Goodwill – net dropped by 5% to **₱ 8.12 billion** due to currency translation loss with the depreciation of the Malaysian Ringgit versus the US dollar and Philippine peso.

Other noncurrent assets – net went up to **₱ 2.08 billion** from ₱ 1.40 billion mainly from additional catalysts and reclassification of stock investment from current asset.

Short-term loans declined by 11% from ₱ 137.89 billion to **₱ 122.77 billion** due to the net settlement of short-term loans during the period.

Liabilities for crude oil and petroleum products stood higher at **₱ 56.64 billion** compared to end-2022 level of ₱ 51.07 billion owing primarily to higher outstanding crude purchases at the end September vs. December 2022.

Trade and other payables jumped by 14% to **₱ 26.02 billion** due to higher outstanding liabilities to vendors and suppliers.

Derivative liabilities went up to **₱ 2.73 billion** with the increase in expected settlement on outstanding commodity and currency hedging transactions.

Income tax payable escalated to **₱ 672 million** as tax liabilities of foreign subsidiaries increased.

Long-term debt including current portion went up by 10% to **₱ 118.22 billion** from ₱ 107.06 billion mainly from availment of US Dollar-denominated long-term loans, net of maturities paid during the period.

Retirement benefits liability declined from ₱ 3.26 billion to **₱ 2.73 billion** after deducting the contributions to the retirement fund, offset by the recognition of expenses during the period.

Deferred tax liabilities – net went up to **₱ 4.18 billion** from ₱ 3.60 billion due to Petron Malaysia's utilization of deferred tax on carry-forward capital allowance.

Asset retirement obligation increased to **₱ 4.30 billion** from ₱ 3.53 billion after liability remeasurements and accretion recognized during the period.

Additional paid-in capital increased by ₱ 3.49 billion to **₱ 40.99 billion**, while the negative balance of **Treasury stock** decreased by ₱ 10.40 billion to **₱ 7.60 billion** as a result of reissuance of preferred treasury shares.

Capital securities declined by 40% to **₱ 37.53 billion** following the full redemption of US\$500 million SPCS.

Retained Earnings increased by 12% to **₱ 33.88 billion** traced to the net income realized during the period partly offset by the payment of cash dividends and distributions.

The negative balance of **Equity reserves** increased from ₱16.89 billion to **₱ 20.95 billion** on account of translation losses on the redemption of US\$500 million SPCS and investment in Petron Malaysia.

September 2022 vs December 2021

	Horizontal Analysis				Vertical Analysis	
	Sep 30	Dec 31	Increase (Decrease)		Sep 30	Dec 31
	2022	2021	Amount	%	2022	2021
Cash and cash equivalents	41,217	36,406	4,811	13%	9%	9%
Financial assets at fair value	2,640	1,005	1,635	163%	1%	0%
Trade and other receivables – net	74,778	51,745	23,033	45%	16%	13%
Inventories	95,260	67,684	27,576	41%	20%	17%
Other current assets	35,956	31,195	4,761	15%	8%	8%
Total Current Assets	249,851	188,035	61,816	33%	53%	46%
Investment in shares of stock of an associate	1,059	1,012	47	5%	0%	0%
Property, plant and equipment – net	171,425	171,602	(177)	0%	37%	42%
Right of Use	5,307	5,648	(340)	(6%)	1%	1%
Investment property – net	28,298	29,175	(877)	(3%)	6%	7%
Deferred tax assets - net	1,883	2,172	(289)	(6%)	1%	1%
Goodwill	8,524	8,235	289	4%	2%	2%
Other noncurrent assets – net	1,502	1,541	(39)	0%	0%	0%
Total Noncurrent Assets	217,998	219,385	(1,386)	(1%)	47%	54%
Total Assets	467,849	407,420	60,430	15%	100%	100%
Short term loans	144,183	109,196	34,987	32%	31%	27%
Liabilities for crude oil and petroleum products	42,781	42,641	140	0%	9%	10%
Trade and other payables	23,822	14,001	9,821	70%	5%	3%
Current portion of lease liability	1,387	1,335	52	4%	0%	0%
Derivative liabilities	1,785	997	788	79%	0%	0%
Income tax payable	1,890	302	1,588	526%	0%	0%
Current portion of long-term debt – net	28,434	21,580	6,854	32%	6%	5%
Total Current Liabilities	244,282	190,052	54,230	29%	52%	47%
Long-term debt - net of current portion	82,227	81,065	1,162	1%	18%	20%
Retirement benefits liability	2,799	3,327	(528)	(16%)	1%	1%
Deferred tax liabilities - net	2,685	3,784	(1,099)	(29%)	1%	1%
Lease liability - net of current portion	13,629	14,220	(591)	(4%)	3%	3%
Asset retirement obligation	3,044	2,857	187	7%	1%	1%
Other noncurrent liabilities	1,191	1,202	(11)	(1%)	0%	0%
Total Noncurrent Liabilities	105,575	106,455	(880)	1%	23%	26%
Total Liabilities	349,857	296,507	53,350	18%	75%	73%

Forward

			Horizontal Analysis		Vertical Analysis	
	Sep 30	Dec 31	Increase (Decrease)		Sep 30	Dec 31
	2022	2021	Amount	%	2022	2021
Capital stock	9,485	9,485	-	0%	2%	2%
Additional paid-in capital	37,500	37,500	-	0%	8%	9%
Capital securities	62,712	62,712	-	0%	13%	15%
Retained earnings	33,884	30,232	3,652	12%	7%	7%
Equity Reserves	(16,051)	(18,341)	2,290	(12%)	(3%)	(5%)
Treasury stock	(18,000)	(18,000)	-	0%	(4%)	(4%)
Total Equity Attributable to Equity Holders of the Parent Company	109,530	103,588	5,942	6%	23%	25%
Non-controlling Interests	8,462	7,325	1,137	16%	2%	2%
Total Equity	117,992	110,913	7,079	6%	25%	27%
Total Liabilities and Equity	467,849	407,420	60,429	15%	100%	100%

The **Consolidated assets** of Petron Corporation and its Subsidiaries as of end September 2022 totaled **₱ 467.85 billion, 15%** or **₱ 60.43 billion** higher than end 2021 balance of **₱ 407.42 billion**. The increase in total assets is primarily attributed to inventories and trade and other receivables due to higher prices.

Cash and cash equivalents increased by **13%** to **₱ 41.22 billion** from **₱ 36.41 billion** from the net cash generated from operations and financing activities, which were used to fund the increase in working capital requirement and expenditures on capital projects during the three quarters of 2022.

Financial assets at fair value went up to **₱ 2.64 billion** from **₱ 1.00 billion** due to gains on outstanding commodity and currency hedging transactions which was partially offset by the losses booked under derivative liabilities.

Trade and other receivables - net rose by 45% to **₱ 74.78 billion** because of higher product prices and elevated levels of the government receivables of foreign subsidiaries.

Inventories swelled to **₱ 95.26 billion** from **₱ 67.68 billion** as a result of higher prices of crude and finished products.

Other current assets increased by 15% to **₱ 35.96 billion** from additional creditable withholding taxes.

Investment in shares of stock of an associate increased by 5% to **₱ 1.06 billion** after the recognition of share in net income for the period.

Deferred tax assets – net went down from **₱ 2.17 billion** to **₱ 1.88 billion** with the usage of previous year's Net Operating Loss Carry Over and net decrease in temporary differences in depreciation computation per tax accounting and that of financial reporting, offset by unrealized forex loss.

Short-term loans jumped by 32% from **₱ 109.20 billion** to **₱ 144.18 billion** with the availment of additional loans to cover the increase in working capital requirements during the nine-month period of 2022.

Trade and other payables jumped by 70% to **₱ 23.82 billion** due to advances made from a related party and higher excise tax liability.

Derivative liabilities increased by 79% to **₱ 1.79 billion** with the increase in expected settlement on outstanding commodity hedging transactions.

Income tax payable rose to **₱ 1.89 billion** as tax liabilities of foreign subsidiaries increased.

Long-term debt including current portion increased by 8% to **₱ 110.66 billion** mainly from the revaluation of outstanding US Dollar-denominated loans and availment of long-term loans, net of maturities paid during the period.

Retirement benefits liability declined from ₱ 3.33 billion to **₱ 2.80 billion** after deducting the contribution to retirement fund during the period.

Deferred tax liabilities – net dropped by 29% to **₱ 2.69 billion** from ₱ 3.78 billion level of end-2021 due to the net decrease in temporary differences with respect to depreciation and capital allowance of qualifying assets.

Asset retirement obligation rose by 7% to **₱ 3.04 billion** compared to end-2021 level of ₱ 2.86 billion after the provision for accretion booked during the period.

Retained Earnings increased by 12% to **₱ 33.88 billion** after considering the net income for the period less the payment of cash distributions and dividends to the holders of capital securities and preferred shares, respectively.

The **negative balance of Equity reserves** decreased from ₱18.34 billion to **₱ 16.05 billion** on account of the translation gain on investment in foreign subsidiaries following the weakening of the peso against the US dollar.

Non-controlling interests rose by 16% to **₱ 8.46 billion** mainly from its proportionate share in net income during the period.

Cash Flows

YTD September 2023 vs YTD September 2022

As of end-September 2023, cash and cash equivalents stood at **₱ 28.63 billion**, lower by ₱ 8.55 billion from the balance at the beginning of the year. Cash generated from operations of ₱ 35.98 billion were used to settle short-term loans (₱ 14.95 billion), interest and taxes (₱ 12.77 billion), dividends and distributions (₱ 5.38 billion), and fund various capital projects (₱ 4.89 billion). Net long-term loans availed and proceeds received from reissuance of preferred shares were used to redeem the outstanding capital securities amounting to ₱ 27.47 billion.

In Million Pesos	Sep 30, 2023	Sep 30, 2022	Change
Operating inflows (outflows)	22,412	(25,896)	48,308
Investing outflows	(4,889)	(4,839)	(50)
Financing (outflows) inflows	(25,940)	30,744	(56,684)

YTD September 2022 vs YTD September 2021

As of end-September 2022, cash and cash equivalents increased by ₱4.81 billion to **₱ 41.22 billion**. For the nine-month period ending September 2022, cash generated from operations of ₱29.36 billion was used to partly cover the increase in working capital requirement of ₱ 46.12 billion. The ₱ 30.74 billion net cash provided by financing activities covered the gap of ₱ 16.76 billion in operating activities, ₱ 8.87 billion interest and tax payments, and funding of ₱ 4.84 billion various refinery, terminal, and service station capital projects.

In Million Pesos	September 30, 2022	September 30, 2021	Change
Operating outflows	(25,896)	(6,108)	(19,788)
Investing outflows	(4,839)	(7,049)	2,210
Financing inflows	30,744	19,139	11,605

Discussion of the company's key performance indicators:

Ratio	30-Sep-23	31-Dec-22
Current Ratio	1.0	1.1
Total Interest-bearing Debt to Equity Ratio	2.4	2.2
Return on Equity (%)	7.5	6.0
Interest Rate Coverage Ratio	1.9	1.6
Assets to Equity Ratio	4.5	4.1

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

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

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

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

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

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

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

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

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

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

PART II – OTHER INFORMATION

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

NONE.

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	September 30, 2023	December 31, 2022
Liquidity			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.02	1.07
b) Quick Ratio	$\frac{\text{Current Assets less Inventories and Other Current Assets}}{\text{Current Liabilities}}$	0.50	0.53
Solvency			
c) Debt to Equity Ratio	$\frac{\text{Total Interest-bearing Liabilities}^b}{\text{Total Equity}}$	2.37	2.16
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	4.49	4.05
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	1.91	1.62
Profitability			
f) Return on Average Equity	$\frac{\text{Net Income}^a}{\text{Average Total Equity}}$	7.45%	5.97%
g) Return on Average Assets	$\frac{\text{Net Income}^a}{\text{Average Total Assets}}$	1.75%	1.54%
Operating Efficiency			
h) Volume Growth	$\left(\frac{\text{Current Period Volume}}{\text{Prior Period Volume}} \right) - 1$	16.36%	37.17%
i) Sales Growth	$\left(\frac{\text{Current Period Sales}}{\text{Prior Period Sales}} \right) - 1$	-6.95%	95.78%
j) Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Sales}}$	4.60%	2.24%

^a trailing 12 months net income

^b excludes lease liabilities and advances from a related party

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

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

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

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

ii. Actual Gross and Net Proceeds

In P Millions	
Actual Gross Proceeds	P18,000.00
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	227.95
Actual Net Proceeds	P17,772.05

iii. Each Expenditure Item where the Proceeds was Used

In P Millions	
Actual Net Proceeds	P17,772.05
Less: Redemption of the Series A Bonds	13,000.00
Payment for power plant project	2,995.57
Payment of long-term loan amortization to:	
Bank of the Philippine Islands	697.49
BDO Unibank, Inc.	535.71
UnionBank	250.00
Total Payments	P17,478.77
Balance	P293.28

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

As of September 30, 2023, balance of proceeds amounted to P293.28 million.

PETRON CORPORATION
Proceeds from the Reissuance of Series 4 Preferred Shares
September 30, 2023

- i. The net proceeds of the Company’s offering of Series 4A, 4B and 4C preferred shares (the “Offering”) were fully disbursed as follows:

Date of Disbursement	Use of Proceeds	Amount in Million Php
19 July 2023	Partial funding of the full redemption of the Company’s remaining senior perpetual capital securities issued in 2018	13,883.43
TOTAL DISBURSEMENT IN THIS REPORT		13,883.43
TOTAL DISBURSEMENTS TO DATE		13,883.43
BALANCE OF PROCEEDS		0.00

- ii. The net proceeds of the Offering are computed as follows:

Gross Proceeds	14,000.00
Expenses related to the Offering¹	116.57
Net Proceeds	13,883.43

¹ Expenses related to the Offering include: (i) underwriting, selling, registry, stock transfer and receiving agency, legal, and other professional fees and other miscellaneous expenses, (ii) taxes paid to the Bureau of Internal Revenue, and (iii) filing fees paid to the Securities and Exchange Commission and The Philippine Stock Exchange.