

08 November 2018

**Securities & Exchange Commission**

Secretariat Building, PICC Complex  
Roxas Blvd, Metro Manila

**Philippine Stock Exchange**

Disclosure Department  
3/F PSE Plaza, Ayala Triangle Plaza  
Makati City, Metro Manila

**Philippine Dealing & Exchange Corporation**

37th Floor, Tower 1, The Enterprise Center  
6766 Ayala Ave. corner Paseo de Roxas  
Makati, 1226 Metro Manila, Philippines

**Attention: Hon. Vicente Graciano P. Felizmenio, Jr.**  
Director, Market and Securities Regulation Department  
Securities & Exchange Commission

**Ms. Janet A. Encarnacion**  
Disclosure Department  
Philippine Stock Exchange

**Ms. Paula Beatrice A. Bueno**  
Head - Issuer Compliance and Disclosure Department (ICDD)

***Gentlemen and Mesdames:***

We are herewith submitting the Company's first quarter report for period ended 30 September 2018 (SEC 17-Q) in compliance with the Securities Regulation Code and Revised Disclosure Rules.

Thank you and warm regards.

Very truly yours,



**Atty. Socorro Ermac Cabreros**  
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q, AS AMENDED

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

1. For the quarterly period ended: September 30, 2018
2. SEC identification number: A200207283
3. BIR Tax Identification No. 006-036-274
4. Exact name of issuer as specified in its charter **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**
5. Province, country or other jurisdiction of incorporation or organization Davao City, Philippines.
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: Stella Hizon Reyes Road, Bo.  
Pampanga, Lanang, Davao City  
Postal Code: 8000
8. Issuer's telephone number, including area code: (082) 235-8888
9. Former name, former address and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each class	Number of Shares Outstanding
COMMON	1,409,304,232
PREFERRED	25,000,000

Amount of Debt Outstanding as of September 30, 2018: Php 36,144,893,625.00

11. Are any or all of the securities listed on the Stock Exchange? Yes [  ] No [  ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

12. Check whether the issuer has:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 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 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 [  ]

## TABLE OF CONTENT

<b>Particulars/Description</b>	<b>Page</b>
<b>Part I - Financial Statements</b>	<b>1 - 102</b>
Part 1 - Consolidated Statements of Financial Position	1
Consolidated Statements of Comprehensive Income	2
Consolidated Statements of Cash Flows	3
Consolidated Statements of Changes in Equity	4
Notes to Consolidated Financial Statements	5 - 28
<b>Part II - Other Information</b>	<b>29 - 34</b>
<b>Signatures</b>	<b>35</b>

# COVER SHEET

A	2	0	0	2	0	7	2	8	3
---	---	---	---	---	---	---	---	---	---

S.E.C. Registration Number

P	H	O	E	N	I	X		P	E	T	R	O	L	E	U	M			
P	H	I	L	I	P	P	I	N	E	S		I	N	C.					

**P-H-O-E-N-I-X Petroleum Philippines, Inc.**  
(Company's Full Name)

S	T	E	L	L	A		H	I	Z	O	N		R	E	Y	E	S		R	D.
B	O.		P	A	M	P	A	N	G	A		L	A	N	A	N	G			
D	A	V	A	O		C	I	T	Y											

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

<b>Dennis A. Uy</b>
---------------------

Contact Person

<b>(082) 233-0168</b>
-----------------------

Company Telephone Number

1	2
---	---

Month  
Fiscal Year Ending

3	1
---	---

Day

**SEC Form 17-Q**  
FORM TYPE

3
---

Month  
Annual Meeting

**last Friday**  
Day

--

Secondary License Type, if applicable

--	--	--

Dept. Requiring this Doc

--

Amended Articles Number/Section

--

Total No. of Stockholders

--	--	--	--	--

Domestic

--	--	--	--	--

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel Concerned

--	--	--	--	--	--	--	--	--	--

File Number

\_\_\_\_\_ LCU

--	--	--	--	--	--	--	--	--	--

Document I.D.

\_\_\_\_\_ Cashier

Remarks = pls. use black ink for scanning purposes

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2018**  
*(With Comparative Figures as of December 31, 2017)*  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>September 30, 2018</u>	<u>Dec. 31, 2017</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 2,405,214,654	P 1,831,542,441
Trade and other receivables - net	7	13,203,183,369	7,509,198,377
Inventories - net	8	8,088,357,586	12,969,947,045
Due from related parties	27	3,572,124	518,004,898
Restricted deposits	9	52,280,997	51,281,559
Input value-added tax - net		963,743,002	1,773,091,281
Prepayments and other current assets	10	<u>1,126,951,023</u>	<u>581,435,883</u>
Total Current Assets		<u>25,843,302,755</u>	<u>25,234,501,484</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	11	16,304,398,907	13,400,687,345
Investment in Joint Venture		75,550,200	-
Investment properties	15	1,114,255,223	1,114,780,281
Intangible assets - net	12	290,039,494	274,931,452
Goodwill - net	14	4,507,859,894	3,990,666,606
Deferred tax assets - net	26	235,002,162	231,866,237
Other non-current assets	16	<u>431,977,753</u>	<u>223,467,068</u>
Total Non-current Assets		<u>22,959,083,633</u>	<u>19,236,398,989</u>
<b>TOTAL ASSETS</b>		<b><u>P 48,802,386,388</u></b>	<b><u>P 44,470,900,473</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowing	17	P 12,671,697,408	P 16,796,874,145
Trade and other payables	19	6,154,598,053	3,832,668,620
Income tax payable		<u>8,300,877</u>	<u>17,301,439</u>
Total Current Liabilities		<u>18,834,596,338</u>	<u>20,646,844,204</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowing	17	16,664,782,265	11,374,559,853
Other non-current liabilities	20	<u>645,515,022</u>	<u>497,806,312</u>
Total Non-current Liabilities		<u>17,310,297,287</u>	<u>11,872,366,165</u>
Total Liabilities		<u>36,144,893,625</u>	<u>32,519,210,369</u>
<b>EQUITY</b>			
Capital stock	28	1,459,186,232	1,456,538,232
Treasury shares - at cost		( 279,500,000 )	-
Additional paid-in capital		5,729,780,006	5,709,303,309
Revaluation reserves		( 2,306,048 )	( 2,306,049 )
Other reserves		( 732,561,564 )	( 730,361,725 )
Accumulated translation adjustment		40,438,340	( 6,065,195 )
Retained earnings		6,444,187,889	5,524,581,532
Minority Interest		<u>( 1,732,092 )</u>	<u>-</u>
Total Equity		<u>12,657,492,763</u>	<u>11,951,690,104</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 48,802,386,388</u></b>	<b><u>P 44,470,900,473</u></b>

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018 and 2017 (UNAUDITED)**  
*(Amounts in Philippine Pesos)*

	Notes	<u>YTD September</u>		<u>3rd Quarter (July - September)</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>					
Sale of goods	27	P 64,595,464,614	P 32,274,326,027	P 24,549,798,136	13,560,378,644
Fuel service and other revenues	2	291,258,526	200,309,819	121,211,763	72,909,353
Rent and storage income	15, 31	76,587,930	81,755,026	44,148,990	34,470,770
		<u>64,963,311,069</u>	<u>32,556,390,872</u>	<u>24,715,158,888</u>	<u>13,667,758,767</u>
<b>COST AND EXPENSES</b>					
Cost of sales and services	21	58,545,178,249	27,838,378,317	22,732,034,047	11,783,947,457
Selling and administrative expenses	22	4,161,403,493	3,049,729,994	1,426,935,019	1,236,713,079
		<u>62,706,581,742</u>	<u>30,888,108,311</u>	<u>24,158,969,066</u>	<u>13,020,660,536</u>
<b>OTHER CHARGES (INCOME)</b>					
Finance costs	23	930,359,495	593,121,720	270,790,887	258,914,431
Finance income	23	( 57,825,454 )	( 16,683,436 )	( 19,275,882 )	( 9,168,496 )
Others - net	15	( 20,851,240 )	( 47,201,082 )	( 9,303,546 )	( 47,197,837 )
		<u>851,682,801</u>	<u>529,237,202</u>	<u>242,211,459</u>	<u>202,548,098</u>
<b>RECURRING OPERATING INCOME</b>					
Excess of fair value of net assets acquired over acquisition cost	1	1,405,046,526	1,139,045,359	313,978,363	444,550,133
PRE-ACQUISITION PROFIT		( 2,174,620 )	( 253,764,508 )	( 2,174,620 )	( 253,764,508 )
<b>PROFIT BEFORE TAX</b>		<u>1,402,871,906</u>	<u>1,535,796,080</u>	<u>311,803,743</u>	<u>841,300,854</u>
<b>TAX EXPENSE</b>	26	84,934,958	99,173,884	( 36,335,627 )	14,758,676
<b>NET PROFIT</b>		<u>P 1,317,936,948</u>	<u>P 1,436,622,196</u>	<u>P 350,313,990</u>	<u>P 826,542,178</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
<b>Item that will be reclassified subsequently to profit or loss</b>					
Translation adjustment related to a foreign subsidiary	2	46,503,535	-	7,290,000	-
<b>Other Comprehensive Income - net of tax</b>		<u>46,503,535</u>	<u>-</u>	<u>7,290,000</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 1,364,440,483</u>	<u>P 1,436,622,196</u>	<u>P 357,603,990</u>	<u>P 826,542,178</u>
<b>Basic and Diluted Earnings per share</b>	29	<u>P 0.34</u>	<u>P 0.92</u>		

*See Notes to Consolidated Financial Statements.*

P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017  
(Amounts in Philippine Pesos)

Notes	Capital Stock											Non Controlling Interest	TOTAL
	Preferred Treasury Stock -		Common Treasury Stock -		Additional Paid-in Capital	Revaluation Reserves	Other Reserves	Accumulated Translation Adjustment	Retained Earnings	Total Equity Attributable to the Shareholders of Parent Company			
	Preferred Stock	At Cost	Common Stock	At Cost							Total		
Balance at January 1, 2018	30,000,000	(5,000,000)	1,431,538,232	-	1,456,538,232	5,709,303,309	(2,306,049)	(730,361,725)	(6,065,195)	5,524,581,532	11,951,690,104	-	11,951,690,104
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock Options Exercised	-	-	2,648,000	-	2,648,000	20,476,697	-	-	-	(840,390)	22,284,307	-	22,284,307
Cash dividends	-	-	-	-	-	-	-	-	-	(360,913,235)	(360,913,235)	-	(360,913,235)
Acquisition of shares during the year	-	-	-	(279,500,000)	(25,000,000)	(254,500,000)	-	-	-	(279,500,000)	(279,500,000)	-	(279,500,000)
Issuance of shares during the year	-	-	-	-	-	-	-	-	-	-	-	(1,732,092)	(1,732,092)
OCI of new subsidiary	-	-	-	-	-	-	-	(2,199,839)	-	(2,199,839)	(2,199,839)	-	(2,199,839)
Translation adjustments during the year	-	-	-	-	-	-	-	-	46,503,535	(83,080,501)	(36,576,966)	-	(36,576,966)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	1,364,440,483	1,364,440,483	-	1,364,440,483
Balance at September 30, 2018	<u>P 30,000,000</u>	<u>(P 5,000,000)</u>	<u>P 1,434,186,232</u>	<u>(P 279,500,000)</u>	<u>P 1,434,186,232</u> <u>(25,000,000.00)</u>	<u>P 5,475,280,006</u>	<u>(P 2,306,049)</u>	<u>(P 732,561,564)</u>	<u>P 40,438,340</u>	<u>P 6,444,187,889</u>	<u>P 12,659,224,854</u>	<u>(P 1,732,092)</u>	<u>P 12,657,492,762</u>
Balance at January 1, 2017	P 30,000,000	(P 5,000,000)	P 1,428,777,232	(P 330,679,783)	P 1,123,097,449	P 5,320,816,182	(P 12,148,102)	(P 730,361,725)	-	P 4,060,689,929	P 9,762,093,733	-	9,762,093,733
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(282,390,883)	(282,390,883)	-	(282,390,883)
Acquisition of shares during the year	-	-	-	(109,407,705)	(109,407,705)	-	-	-	-	-	(109,407,705)	-	(109,407,705)
Issuance of shares during the year	-	-	2,160,000	-	2,160,000	16,703,046	-	-	-	(6,890,581)	11,972,465	-	11,972,465
Share-based compensation	-	-	-	-	-	-	-	-	-	5,793,979	5,793,979	-	5,793,979
Translation adjustments during the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	1,436,622,196	1,436,622,196	-	1,436,622,196
Balance at September 30, 2017	<u>P 30,000,000</u>	<u>(P 5,000,000)</u>	<u>P 1,430,937,232</u>	<u>(P 440,087,488)</u>	<u>P 1,015,849,744</u>	<u>P 5,337,519,228</u>	<u>(P 12,148,102)</u>	<u>(P 730,361,725)</u>	<u>-</u>	<u>P 5,213,824,640</u>	<u>P 10,824,683,785</u>	<u>-</u>	<u>P 10,824,683,785</u>



**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (AUDITED)**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 1,405,046,526	P 1,789,560,588
Adjustments for:			
Depreciation and amortization	22	838,427,400	823,828,436
Interest expense on bank loans and other borrowings	23	889,956,692	214,624,588
Excess of fair value of net assets acquired over acquisition cost	1	-	( 650,515,229)
Impairment losses on trade and other receivables	23	64,233,948	18,000,000
Gain on reversal of impairment losses on investment properties	15	-	-
Interest income	23	( 16,169,360)	( 16,768,940)
Pre-acquisition income			238,324,765
Share based benefit expense	24	7,243,666	5,793,979
Gain on disposal of property, plant and equipment		-	-
Translation adjustment	1	-	-
Unrealized foreign exchange currency loss (gain) - net		64,723,209	43,039,873
Gain on reversal of allowance for inventory obsolescence	8	-	-
Impairment losses on non-financial assets		-	-
Operating profit before working capital changes		3,253,462,082	2,465,888,060
Decrease (increase) in trade and other receivables		( 5,758,218,940)	1,198,236,044
Decrease (increase) in inventories		4,816,866,250	( 1,050,184,073)
Decrease (increase) in restricted deposits		-	-
Decrease in input value-added tax - net		809,348,279	727,443,333
Decrease (increase) in prepayments and other current assets		( 546,514,578)	( 1,347,692,217)
Increase (decrease) in trade and other payables		2,344,779,764	( 1,526,007,062)
Cash generated from (used in) operations		4,919,722,856	467,684,085
Cash paid for income taxes		( 75,592,861)	( 238,324,765)
Net Cash From (Used in) Operating Activities		<u>4,844,129,995</u>	<u>229,359,320</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries	1	( 843,030,591)	( 6,738,046,064)
Acquisitions of property, plant and equipment	11	( 3,436,637,343)	( 2,341,375,495)
Collections from related parties	27	-	-
Advances to related parties	27	514,432,774	273,177,912
Acquisitions of intangible assets	12	-	( 13,207,997)
Increase in other non-current assets		( 208,510,685)	( 8,437,913)
Translation of financial statements of a foreign subsidiary		( 36,576,966)	-
Interest received		16,169,360	16,683,436
Increase in Finance Lease Liability		-	-
Proceeds from disposal of property, plant and equipment		1,820,769	24,250,339
Additional investment in an indirectly-owned joint venture	13	( 75,550,200)	-
Net Cash Used in Investing Activities		<u>( 4,067,882,882)</u>	<u>( 8,786,955,782)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of interest-bearing loans and borrowings		( 57,991,729,802)	-
Proceeds from additional interest-bearing loans and borrowings		58,266,818,784	39,139,898,101
Proceeds from sale of treasury shares	28	-	( 27,523,956,782)
Stock Options		( 5,436,057)	-
Interest paid		-	( 552,487,034)
Payments of cash dividends	28	( 360,913,235)	( 282,390,883)
Acquisition of treasury shares	28	( 279,500,000)	( 109,407,705)
Increase (decrease) in other non-current liabilities		147,708,711	14,355,753
Increase/decrease in APIC		20,476,697	12,268,800
Proceeds from issuance of shares of stock	28	-	-
Repayments to related parties		-	-
Net Cash From (Used in) Financing Activities		<u>( 202,574,902)</u>	<u>10,698,280,250</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		573,672,212	2,140,683,788
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>1,831,542,441</u>	<u>2,338,780,526</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>P 2,405,214,653</u>	<u>P 4,479,464,314</u>

*See Notes to Consolidated Financial Statements.*

**P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC. AND SUBSIDIARIES**  
**SELECTED NOTES TO INTERIM CONDENSED**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

**1. CORPORATE INFORMATION**

*1.1 Incorporation and Operations*

P-H-O-E-N-I-X Petroleum Philippines, Inc. (the Parent Company) was incorporated in the Philippines on May 8, 2002 and is 41.81% owned by P-H-O-E-N-I-X Petroleum Holdings, Inc. (PPHI), a company organized in the Philippines.

The Parent Company's shares of stock are listed with the Philippine Stock Exchange (PSE). The Parent Company is presently engaged in trading of petroleum products on wholesale and retail basis and operating of gas stations, oil depots, storage facilities and allied services. The registered office of the Parent Company, which is also its principal place of business, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

PPHI was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on May 31, 2006. PPHI's primary purpose is to provide management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. PPHI's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The ultimate parent is Udenna Corporation, which is primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. The ultimate parent company's registered office is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

The Parent Company has a total of **558** opened retail service stations, and a total of thirty service stations under construction as of September 30, 2018.

## 1.2 Subsidiaries, Associate, Joint Venture and their Operations

As of September 31 2018, the Parent Company holds ownership interests in the following entities, which are all incorporated in the Philippines, except for PNX Petroleum Singapore Pte. Ltd., which was incorporated and is domiciled in Singapore as well as Think Able which was incorporated and is domiciled in Hongkong.

Subsidiaries/ Associate/Joint Venture	Explanatory Notes	Percentage of Ownership	
		2018	2017
P-F-L Petroleum Management, Inc. (PPMI)	(a)	100.00%	100.00%
P-H-O-E-N-I-X Global Mercantile, Inc. (PGMI)	(b)	100.00%	100.00%
Subic Petroleum Trading and Transport Phils., Inc. (SPTI)	(c)	100.00%	100.00%
PNX Petroleum Singapore Pte. Ltd. (PNX SG)	(d)	100.00%	100.00%
Phoenix LPG Philippines, Inc. (PLPI)	(e)	100.00%	-
Duta, Inc. (Duta)	(f)	100.00%	-
Kaparangan, Inc. (Kaparangan) <sup>2</sup>	(g)	100.00%	-
Philippine Family Mart CVS, Inc. (PFM)	(h)	100.00%	-
Phoenix Asphalt Philippines, Inc. (PAPI) <sup>4</sup>	(i)	40.00%	-
Action Able <sup>1</sup>	(j)	74.90%	-
Think Able <sup>1</sup>	(k)	74.90%	-

Notes:

1 New subsidiaries

2 Wholly-owned subsidiary of Duta

3 Duta and Kaparangan, collectively known as Duta Group

4 New Joint Venture

- (a) Incorporated on January 31, 2007 and is engaged in organizing, managing, administering, running and supervising the operations and marketing of various kinds of services-oriented companies such as petroleum service stations.
- (b) Incorporated on July 31, 2006 to engage in the manufacture, production and creation of all kinds of motor, and all other transportation lubricants, fluids and additives of all kinds and other petroleum products purposely for motor vehicles and other transportation. PGMI started commercial in 2007 and temporarily ceased its operation in 2008 but has resumed its business in October 2015 through selling of acid oil and coconut fatty acid distillates, both are by-products from manufacturing of coconut methyl ester.
- (c) Incorporated on February 20, 2007 and is engaged in buying and selling, supply and distribution, importation and exportation, storage and delivery of all types of petroleum for industrial, marine, aviation and automotive use.
- (d) Incorporated on October 30, 2012 and started operations in October 2017. It is the regional trading arm of the Company. It currently holds office in Singapore and is able to buy directly from the refineries in the region due to its bigger requirements. It also sells to other local and regional buyers.

- (e) Incorporated on June 20, 1995 to engage in the buying, selling, storing, distributing, and marketing at wholesale of all kinds of goods, including but not limited to liquefied petroleum gas (LPG) and other petroleum products. It is formerly known as Petronas Energy Philippines, Inc.
- (f) Incorporated on November 9, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (g) Incorporated on January 21, 1994 to engage in the business of buying, investing, exchanging, selling securities of every kind and description and leasing land.
- (h) Incorporated on November 29, 2012 and is domiciled in the Republic of the Philippines. The Company was incorporated to engage in the business of operating convenience stores (CVS) under the trademark “FamilyMart” either by direct operation and/or by franchise system in the Philippines and to conduct business activities related to and in support to the aforesaid CVS platforms including importation and export, advertisement and promotion, and in general, to exercise and perform any and all powers necessary, incidental, or convenient to the business.
- (i) Incorporated on March 23, 2018 to engage in the business of selling, importation, marketing, manufacturing and storage of bitumen related products.
- (j) Incorporated on May 2015 to engage in the business of selling, leasing or distributing electronic devices to distributors, merchants or retailers for the purpose of digital marketing and/or ecommerce; to engage in the business of providing an outline digital network for the purpose of digital marketing and/or e-commerce accessible through electronic devices.
- (k) Hong Kong-based Company that handles the trademark of Action.Able Inc.

### ***1.3 Other Corporate Information***

The registered office and principal place of business of the existing subsidiaries, except those presented in below, is located at Stella Hizon Reyes Road, Barrio Pampanga, Davao City.

SPTT	–	Units 113 and 115 Subic International Hotel, Alpha Building, Rizal Highway, Subic Bay Freeport Zone, Zambales
PNX SG	–	350 Orchard Road, #17-05/06 Shaw House, Singapore
Duta	–	15 <sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City
Kaparangan	–	15 <sup>th</sup> Floor, Citibank Tower, Valero St., Salcedo Village, Makati City
PAPI	–	25 <sup>th</sup> Floor, Fort Legend Tower, 3 <sup>rd</sup> Avenue corner 31 <sup>st</sup> Street, The Fort Global City, Taguig City
Action Able	–	2 <sup>nd</sup> Floor Crown Center 148 Jupiter St. Corner N. Garcia St. Bel-Air Village Makati City
Think Able Limited	–	RM 1902 Wilson House 19-27 Wyndham Central Hong Kong

PPMI’s registered office is located at Penthouse, Valero Tower, 122 Valero Street, Salcedo Village, Makati City and its principal place of business is located at 26<sup>th</sup> Floor, The Fort Legend Tower, 3<sup>rd</sup> Avenue corner 31<sup>st</sup> Street, The Fort Global City, Taguig City.

### ***1.3 Approval of Interim Condensed Consolidated Financial Statements***

The interim condensed consolidated financial statements (unaudited) of the Group as of and for the six months ended Sept. 30, 2018 (including the comparative consolidated financial information as of December 31, 2017 and for the nine months ended September 30, 2017) were authorized for issue by the Parent Company’s Board of Directors (BOD) on November 8, 2018.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these interim condensed consolidated financial statements are summarized in the succeeding pages. The policies have been consistently applied to all the periods presented, unless otherwise stated. *Basis of Preparation of Interim Condensed Consolidated Financial Statements*

These interim condensed consolidated financial statements for the six months ended September 30, 2018 and 2017 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended December 31, 2017.

The preparation of interim condensed consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS) requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

These interim condensed consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Group, and all values represent absolute amounts except when otherwise indicated.

### ***2.1 Adoption of New and Amended PFRS***

#### ***(a) Effective in 2017 that are Relevant to the Group***

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods beginning on or after January 1, 2017. Among those new PFRS, amendments and annual improvements, presented in the succeeding pages are relevant to the Group but did not have any significant impact on the Group's financial statements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the consolidated statement of financial position including those changes identified immediately above.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.
- (iii) PFRS 2 (Amendments), *Share-based Payments – Classification and Measurement of Share-based Payment Transactions*. The amendments contain three changes covering the following matters: the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment; the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and, the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Management assessed that no significant impact in the consolidated financial statements of the Group.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

- (i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different

or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its consolidated financial statements.

- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (iv) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Management is currently assessing the impact of this standard on the Group's financial statements.

### **3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

In preparing the interim condensed consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. The judgments, estimates and assumptions applied in the interim condensed consolidated financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements as of and for the year ended December 31, 2017.

The Group performed its annual impairment test of goodwill and other intangible assets with indefinite useful life at year end and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill arising from business combination and other intangible assets is based on value-in-use calculations. The Group considers the relationship between the market capitalization of the subsidiaries and its net book value, among other factors, when reviewing for indicators of impairment. The Group's management assessed



that for the six months ended September 30, 2018 and as of December 31, 2017, goodwill arising from business combination and other intangible assets with indefinite useful life are not impaired.

#### 4. SEGMENT INFORMATION

- (a) The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products or services and serves different markets. The Group's trading segment is engaged in marketing, merchandising, purchasing, selling, acquiring, disposing and distribution of goods and wares such as but not limited to petroleum products (on wholesale basis), lubricants and other products. The Group is also engaged in operating of oil depots, storage facilities and provides logistics services to various entities on its Depot and Logistics Services segment. The Group's real estate segment is involved in real estate development, management and operations. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

As of September 30, 2018, there have been no change from prior periods in the measurement methods used to determine operating segments and reported segment revenues, expenses and performance.

The succeeding table present revenue and profit information regarding segments for the nine months ended September 30, 2018 and 2017 and certain asset and liability information regarding segments as at September 30, 2018 and December 31, 2017 (amounts in thousands).



Presented below is a reconciliation of the Group's segment information to the key financial information presented in its interim condensed consolidated financial statement (in thousands).

	Sept. 30, 2018 <u>(Unaudited)</u>	Sept. 30, 2017 <u>(Unaudited)</u>
<b>Revenues</b>		
Total segment revenues	P 65,419,940	P 32,675,704
Elimination of intersegment revenues	( 456,629)	( 119,313)
Revenues as reported in profit or loss	<u>P 64,963,311</u>	<u>P 32,556,391</u>
<b>Profit or loss</b>		
Segment operating profit	P 2,256,729	P 1,315,345
Other unallocated income		650,615
Other unallocated expense	( )	( )
Operating profit as reported in profit or loss	2,256,729	1,965,860
Finance costs	( 930,360)	( 593,122)
Finance income	<u>78,677</u>	<u>63,884</u>
Profit before tax as reported in profit or loss	<u>P 1,405,046</u>	<u>P 1,436,622</u>
	Sept. 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
<b>Assets</b>		
Segment assets	P 55,326,075	P 48,642,024
Deferred tax asset – net	235,002	231,866
Elimination of intercompany accounts	( 6,758,691)	( 4,402,990)
Total assets reported in the consolidated statement of financial position	<u>P 48,802,386</u>	<u>P 44,470,900</u>
<b>Liabilities</b>		
Segment liabilities	P 37,814,753	P 34,417,760
Deferred tax liabilities - net	-	-
Elimination of intercompany accounts	( 1,669,859)	( 1,898,550)
Total liabilities as reported in the consolidated statement of financial position	<u>P 36,144,894</u>	<u>P 32,519,210</u>

#### 4. CATEGORIES, FAIR VALUE MEASUREMENTS AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

##### 5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are presented below.

	<u>Sept. 30, 2018 (Unaudited)</u>		<u>December 31, 2017 (Audited)</u>	
	<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<b><i>Financial Assets</i></b>				
Loans and receivables:				
Cash and cash equivalents	P 2,405,214,654	P 2,405,214,654	P 1,831,542,441	P 1,831,542,441
Trade and other receivables-net*	10,933,833,045	10,933,833,045	6,843,698,948	6,843,698,948
Due from related parties	3,572,104	3,572,104	518,004,898	518,004,898
Restricted deposits	52,280,997	52,280,997	51,281,559	51,281,559
Refundable rental deposits	<u>246,621,152</u>	<u>246,621,152</u>	<u>182,480,300</u>	<u>182,480,300</u>
	<u><b>P 13,641,521,972</b></u>	<u><b>P 13,641,521,972</b></u>	<u><b>P 9,427,008,146</b></u>	<u><b>P 9,427,008,146</b></u>
<b><i>Financial Liabilities</i></b>				
Financial liabilities at amortized cost:				
Interest-bearing loans and borrowings	P 29,336,479,673	P 29,336,479,673	P 28,171,433,998	P 28,171,433,998
Trade and other payables**	6,125,134,053	6,125,134,053	3,730,046,488	3,730,046,488
Cash Bond Deposits	52,246,724	52,246,724	33,492,002	33,492,002
Customers' Cylinder Deposits	358,653,667	358,653,667	196,380,513	196,380,513
Security deposits	<u>264,681,544</u>	<u>264,681,544</u>	<u>245,488,541</u>	<u>245,488,541</u>
	<u><b>P 36,137,195,661</b></u>	<u><b>P 36,137,195,661</b></u>	<u><b>P 32,376,841,542</b></u>	<u><b>P 32,376,841,542</b></u>

\* Excludes certain advances to suppliers and advances subject to liquidation

\*\* Excludes tax-related payable

## ***5.2 Fair Value Hierarchy***

The Group uses the following hierarchy level in determining the fair values that will be disclosed for its financial instruments.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## ***5.3 Valuation Methods and Assumptions***

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale. The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The valuation requires management to use unobservable inputs in the model. Management regularly assesses a range of reasonably possible alternatives for the significant unobservable inputs and determines their impact on the total fair value.

## 5.4 Fair Value Hierarchy of Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the interim condensed consolidated statements of financial position but for which fair value is disclosed.

					<u>September 30, 2018 (Unaudited)</u>					
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>		
<b>Financial Assets</b>										
<i>Loans and receivables:</i>										
Cash and cash equivalents	P 2,405,214,654	P -	P -	P 2,405,214,654						
Trade and other receivables - net	-	-	10,933,833,405	10,933,833,405						
Due from related parties	-	-	3,572,104	3,572,104						
Restricted deposits	-	-	52,280,997	52,280,997						
Refundable rental deposits	-	-	246,621,152	246,621,152						
	<b><u>P 2,405,214,654</u></b>	<b><u>P -</u></b>	<b><u>P 11,236,307,318</u></b>	<b><u>P 13,641,521,972</u></b>						
<b>Financial Liabilities</b>										
<i>Financial liabilities at amortized cost:</i>										
Interest-bearing loans and borrowings	P -	P -	P 29,336,479,673	P 29,336,479,673						
Trade and other payables	-	-	6,125,134,053	6,125,134,053						
Cash Bond Deposits			52,246,124	52,246,124						
Customers' Cylinder Deposits			358,653,667	358,653,667						
Security deposits	-	-	264,681,544	264,681,544						
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 36,137,195,661</u></b>	<b><u>P 36,137,195,661</u></b>						
<u>December 31, 2017 (Audited)</u>										
					<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>		
<b>Financial Assets</b>										
<i>Loans and receivables:</i>										
Cash and cash equivalents	P 1,831,542,441	P -	P -	P 1,831,542,441						
Trade and other receivables - net	-	-	6,843,698,948	6,843,698,948						
Due from related parties	-	-	518,004,898	518,004,898						
Restricted deposits	51,281,559	-	-	51,281,559						
Refundable rental deposits	-	-	182,480,300	182,480,300						
	<b><u>P 1,882,824,000</u></b>	<b><u>P -</u></b>	<b><u>P 7,544,184,146</u></b>	<b><u>P 9,427,008,146</u></b>						
<b>Financial Liabilities</b>										
<i>Financial liabilities at amortized cost:</i>										
Interest-bearing loans and borrowings	P -	P -	P 28,171,433,998	P 28,171,433,998						
Trade and other payables	-	-	3,730,046,488	3,730,046,488						
Cash Bond Deposits			33,492,002	33,492,002						
Customers' Cylinder Deposits			196,380,513	196,380,513						
Security deposits	-	-	245,488,541	245,488,541						
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 32,376,841,542</u></b>	<b><u>P 32,376,841,542</u></b>						

For financial assets with fair value included in Level 1, management considers that the carrying amount of this short-term financial instrument approximates their fair values.

## 5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

### 6.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from both its operating, investing and financing activities.

#### (a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's sales to a certain customer and, fuel and tanker importations, which are primarily denominated in U.S. dollars (US\$). The liability covering the fuel importation is covered by letter of credits (LCs) which is subsequently closed to Philippine peso trusts receipts (TRs). Further, the Group has several U.S. dollar loans from certain banks, which were used to finance its capital expenditures. The Group also holds U.S. dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos at the closing rate follow:

	<u>Sept. 30, 2018</u>	
	<u>U.S. Dollar</u>	<u>Singapore Dollar</u>
Financial assets	<b>P 5,512,714,686</b>	<b>P 855,421</b>
Financial liabilities	<b>( 4,599,084,078)</b>	<b>( )</b>
Net exposure	<b><u>P 963,630,609</u></b>	<b><u>P 855,421</u></b>

	<u>December 31, 2017</u>	
	<u>U.S. Dollar</u>	<u>Singapore Dollar</u>
Financial assets	P 1,260,407,888	P 317,739
Financial liabilities	( 1,566,782,434 )	-
Net exposure	<u>( P 306,374,546 )</u>	<u>P 317,739</u>

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S. dollar exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 9 and 12 months, respectively, at a 99% confidence level.

	<u>Sept. 30, 2018</u>	
	<u>(U.S. Dollar)</u>	<u>(Singapore Dollar)</u>
Reasonably possible change in rate	8.99%	5.64%
Effect in profit before tax	P 86,591,422	P 48,207
Effect in equity after tax	60,613,955	33,745

  

	<u>December 31, 2017</u>	
	<u>(U.S. Dollar)</u>	<u>(Singapore Dollar)</u>
Reasonably possible change in rate	10.77%	16.88%
Effect in profit before tax	P (32,996,539)	P 53,635
Effect in equity after tax	(23,097,577)	37,544

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

*(b) Interest Rate Risk*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually made at fixed rates. As of December 31, 2016 and 2015, the Group is exposed to changes in market interest rates through its cash and cash equivalents and certain interest-bearing loans and borrowings which are subject to variable interest rates. All other financial assets and financial liabilities have fixed rates.

Cash in banks are tested on a reasonably possible change of +/- 0.25% and +/-0.47% as of Sept. 30, 2018 and December 31, 2017, respectively. Banks loans subject to variable interest rates are tested on a reasonably possible change of +/-0.11% and +/-0.30% for Philippine peso and +/-0.13% and +/-0.25% for U.S. dollar as of Sept. 30, 2018 and December 31, 2017, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in previous three and 12 months estimated at 99.00% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P39.5 million and +/-P94.5



million for the nine months ended Sept. 30, 2018 and for the year ended December 31, 2017, respectively, and equity after tax by +/-P27.7 million and +/-P66.2 million the nine months ended Sept. 30, 2018 and for the year ended December 31, 2017, respectively.

(c) *Other Price Risk*

The Group's market price risk arises from its purchases of fuels. It manages its risk arising from changes in market prices by monitoring the daily movement of the market price of fuels and to some extent, using forward and other similar contracts to manage the fluctuation of the fuel price.

**6.2 Credit Risk**

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting of loans and selling goods and services to customers including related parties; and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements, as follows.

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash and cash equivalents	<b>P 2,405,214,654</b>	P 1,831,542,441
Trade and other receivables – net*	<b>10,933,833,045</b>	6,843,698,948
Due from related parties	<b>3,572,124</b>	518,004,898
Restricted deposits	<b>52,280,997</b>	51,281,559
Refundable rental deposits	<b>246,621,152</b>	182,480,300
	<b><u>P13,641,521,972</u></b>	<b><u>P9,427,008,146</u></b>

*\*excluding certain advances to suppliers and advances subject to liquidation*

The Group's management considers that all the above financial assets that are not impaired or past due for each reporting dates are of good credit quality.

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables and Due from Related Parties*

In respect of trade and other receivables and due from related parties, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

The Group has a Credit Committee which approves credit lines given to its customers. The Group's Credit Risk Management Unit (formerly Credit and Collection Department), which regularly reports to the Credit Committee, continuously monitors customers' performance and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Some of the unimpaired trade and other receivables are past due at the end of the reporting date. The age of financial assets past due but not impaired is presented below.

	<b>September 30, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Not more than one month	<b>P 646,673,072</b>	P 577,035,340
More than one month but not more than two months	<b>170,404,977</b>	681,732,537
More than two months but not more than six months	<b>519,434,527</b>	1,475,835,606
More than six months but not more than one year	<b>131,065,909</b>	579,628,183
More than one year	<b><u>49,980,602</u></b>	<u>455,810,155</u>
	<b><u>P 1,517,559,087</u></b>	<b><u>P 3,770,041,821</u></b>

In respect of due from a related party, the Group has assessed that these advances are collectible and the credit risk exposure is considered to be low.

### **6.3 Liquidity Risk**

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

This compares to the maturity of the Group's financial liabilities as of Sept. 30, 2018 (Unaudited) as presented below.

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>
Interest-bearing loans and borrowings	P 12,086,697,408	P 585,000,000	P 13,331,825,812	P 3,332,956,453
Trade and other payables (excluding tax-related payables)	4,864,387,211	1,214,890,660	45,856,182	
Security deposits	-	-	-	264,681,544
Customers' cylinder deposits	-	-	-	358,653,667
Cash bond	-	-	-	52,246,724
	<b><u>P 16,951,084,619</u></b>	<b><u>P 1,799,890,660</u></b>	<b><u>P 13,377,681,994</u></b>	<b><u>P 4,008,538,388</u></b>

As of December 31, 2017 (Audited), the Group's financial liabilities have contractual maturities which are summarized as follows:

	<u>Current</u>		<u>Non-current</u>	
	<u>Within 6 months</u>	<u>6 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>
Interest-bearing loans and borrowings	P 17,093,687,980	P 770,678,974	P 9,934,502,651	P 2,318,636,250
Trade and other payables (excluding tax-related payables)	3,730,046,488	-	-	-
Security deposits	-	-	245,488,541	-
Customers' cylinder deposits	-	-	-	196,380,513
Cash bond	-	-	-	33,492,002
	<b><u>P 20,823,734,468</u></b>	<b><u>P 770,678,974</u></b>	<b><u>P 10,179,991,192</u></b>	<b><u>P 2,548,508,765</u></b>

## 6. INVENTORIES

Inventories which are stated at cost, which is lower than its net realizable value, are broken down as follows:

	<u>September 30, 2018 (Unaudited)</u>	<u>December 31, 2017 (Audited)</u>
At cost:		
Fuels	<b>P 7,419,051,873</b>	P 12,571,587,151
LPG	<b>224,495,345</b>	124,305,656
Others	<b>77,588,849</b>	<u>2,185,536</u>
		12,698,078,343
At net realizable value – Lubricants	<b><u>367,221,519</u></b>	<u>271,868,702</u>
	<b><u>P 8,088,357,586</u></b>	<b><u>P 12,969,947,045</u></b>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of **P2,088** million and P5,139 million as of Sept. 30, 2018 and December 31, 2017,

respectively, have been released to the Group in trust for by the bank.  
The Group is accountable to the bank for the trusted inventories or their sales proceeds.

There were no inventory write-down in all of the periods presented.

## 7. PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the carrying amounts of property, plant and equipment is shown below.

	Sept. 30,		December 31,
	2018	2017	2017
Balance at beginning of period	P 13,400,687,345	9,002,313,141	P 9,002,313,141
Business combination -net	321,905,372		2,046,988,345
Additions	3,387,546,575		3,195,335,770
Transfers		4,447,518,256	-
Disposals – net	( 1,820,769)		( 23,697,376 )
Redassifications/adjustments			( - )
Depreciation and amortization	( 803,919,616)	( 574,845,195)	( 820,252,535 )
Balance at end of the period	<u>P 16,304,398,907</u>	<u>P 12,874,986,202</u>	<u>P 13,400,687,345</u>

## 8. INTANGIBLE ASSETS

The reconciliation of the carrying amounts of intangible assets is shown below.

		September 30,		December 31,
	Note	2018	2017	2017
		(Unaudited)	(Unaudited)	(Audited)
Balance at beginning of period		P 274,931,452	P 275,037,490	P 275,037,490
Additions		49,090,768	13,307,997	30,021,932
Transfer from property, plant and equipment	7	-		-
Amortization expense for the period		( 33,982,726)	( 22,662,294)	( 30,127,970)
Balance at end of the period		<u>P 290,039,494</u>	<u>P 265,583,193</u>	<u>P 274,931,452</u>

## 9. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings are broken down as follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Current:		
Liabilities under LC and TR	P 2,088,636,632	P 5,139,141,223
Term loans	10,583,060,766	11,657,732,922
Liabilities under short-term commercial papers	-	-
Obligations under finance lease	-	-
	<u>12,671,697,408</u>	<u>16,796,874,145</u>
Non-current –		
Term loans	<u>16,664,782,265</u>	<u>11,374,559,853</u>
	<u>P 29,336,479,673</u>	<u>P28,171,433,99</u>

### 10.1 Liabilities under Letters of Credits and Trust Receipts

The Group avails of LC and TR lines with local banks to finance its purchases of inventories. These short-term trust receipts bear interests based on prevailing market interest rates at an average of 4.703% and 3.97% per annum as of September 30, 2018 and December 31, 2017, respectively.

## 10.2 Borrowings and Repayments

During the period, the Group obtained various term loans with banks in the total amount of **P58,267** million with outstanding balance as of Sept. 30, 2018 of **P15,583** million. The loans bear interest ranging from 4.00% to 5.00% and is repayable in various dates until July 4, 2025.

As of Sept. 30, 2018, repayments of other term loans amounting to **P57,992** million were made in line with previously disclosed repayment terms.

## 10. RELATED PARTY TRANSACTIONS

The Group's related parties include the ultimate Parent Company, PPHI, stockholders, the Group's key management personnel, entities under common ownership by the ultimate parent Company and others as described in the succeeding pages.

The summary of the Group's transactions with its related parties for the periods ended September 30, 2018 and 2017 and the related outstanding balances as of September, 2018 and December 31, 2017 is presented below.

Related Party Category*	Amount of Transactions		Outstanding Balance	
	Sept. 30, 2018 (Unaudited)	Sept. 30, 2017 (Unaudited)	Sept. 30, 2018 (Unaudited)	December 31 2017 (Audited)
<b>Other related parties under common ownership</b>				
Sale of subsidiaries	P -	P -	P -	P 500,000,000
Sale of goods*	<b>316,538,256</b>	103,230,562	-	955,539,554
Purchases of services*	<b>2,132,601,754</b>	668,813,118	-	20,995,548
Advances to suppliers*	-	-	-	-
Management fees	-	-	-	86,598,808
Rentals	<b>43,085,930</b>	70,497,544	-	2,740,627
Due from related parties*	-	13,834,791	-	518,004,898
Due to related parties	-	-	-	-
Donations	<b>30,000,000</b>	-	-	-
<b>Udenna Corporation</b>				
Advances to suppliers	-	-	-	424,838,624
Rentals	<b>7,603,900</b>	4,736,649	-	710,545
<b>Associate</b>				
Technical ship Services	-	-	-	-
<b>Key management personnel</b>				
Salaries and employee benefits	<b>121,520,446</b>	49,059,672	-	-

\*As a result of the deconsolidation of PPIP and CSC (see Note 1.4), these formerly wholly-owned subsidiaries fall under related party under common ownership in 2016.

## 11.1 Sale of Goods

The Group sells products to certain related parties under common ownership. Goods are sold on the basis of the price lists in force with non-related parties. The outstanding receivables from related parties are unsecured, do not bear any interest and collectible in cash on demand. No impairment loss was recognized for the nine months ended Sept. 30, 2018 and 2017 based on management's assessment.

### ***11.2 Purchases of Goods and Services***

The Group purchased goods and services from related parties on the basis of price lists in force with non-related parties. The outstanding balances are unsecured, non-interest bearing, payable on demand and normally settled in cash.

In addition, the Group advances certain amount to certain related parties for the purchase of services. The amount is credited upon the performance of the contractual obligation by the related parties. Management has assessed that there are no impairment losses required to be recognized on the advances to suppliers as of the nine months ended Sept. 30, 2018 and 2017.

### ***11.3 Due from Related Parties***

The Group grants and obtains unsecured advances to and from related parties under common ownership for working capital requirements and other purposes. Due from Related Parties (excluding advances to PPIPC) are either receivable in cash or paid through offsetting, unsecured non-interest-bearing liabilities and are expected to be paid within one year.

### ***11.4 Disposal and Acquisition of Subsidiaries***

On May 2018, the Parent Company acquired Action. Able Inc. and Think.Able Limited.

There are no disposal of subsidiaries for the months ended September 30, 2018.

On January 11, 2018, the Parent Company has signed a deed of absolute sale and concluded the acquisition of the 100.00% shares in Philippine FamilyMart CVS, Inc. (PFM) from its shareholders, namely: SIAL CVS Retailers, Inc., FamilyMart Co. Ltd. and ITOCHU Corporation. PFM is engaged in operating convenience stores under the trademark "Family Mart".

A new exclusive Area Franchise Agreement of the Family Mart branch of convenience store in the Philippines was granted to Philippine FamilyMart CVS, Inc. under the management of the Parent Company. The transaction was approved by the Philippine Competition Commission (PCC) sometime in January 2018.

On January 16, 2018, the Parent Company has entered into a JV agreement with TIPCO Asphalt Public Company Limited (TIPCO Asphalt) and Mr. Carlito B. Castrillo to set-up and incorporate a JV company – PhilAsphalt (Dev't) Corporation (PhilAsphalt). The JV company is registered for the purpose of operating, marketing and distribution of bitumen and bitumen-related products in the Philippines. The authorized share capital of PhilAsphalt will be P275.0 million divided into 275.0 million shares with par value of P1 per share. Both the Parent Company and TIPCO Asphalt's percentage of shareholding will be 40% each and 20.00% for Mr. Castrillo.

## 11. EQUITY

### 12.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	For the nine months ended Sept. 30, (Unaudited)	For the year ended December 31, 2017 (Audited)	For the year ended December 31, 2017 (Audited)	For the nine months ended Sept. 30, (Unaudited)	For the year ended December 31, 2017 (Audited)	For the year ended December 31, 2017 (Audited)
	<u>2018</u>	<u>2017</u>	<u>(Audited)</u>	<u>2018</u>	<u>2017</u>	<u>(Audited)</u>
Preferred – cumulative, nonvoting, non-participating, non-convertible into common shares - P1 par value						
Authorized:	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>	<u>P 50,000,000</u>
Issued:						
Balance at beginning of period	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>P 30,000,000</u>	<u>P 30,000,000</u>	<u>P 30,000,000</u>
Issuance during the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of period	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>	<u>30,000,000</u>
Treasury shares	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>	<u>( 5,000,000)</u>
Issued and outstanding	<u>25,000,000</u>	<u>25,000,000</u>	<u>5,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>	<u>P 25,000,000</u>
Common – P1 par value						
Authorized:	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>	<u>P 2,500,000,000</u>
Issued:						
Balance at beginning of period	<u>1,431,538,232</u>	<u>1,374,383,932</u>	<u>1,428,777,232</u>	<u>P 1,431,538,232</u>	<u>P 1,098,097,449</u>	<u>P 1,428,777,232</u>
Issuance during the period	<u>2,648,000</u>			<u>2,648,000</u>		
Treasury shares	<u>( 25,000,000)</u>	<u>( 70,193,400)</u>	<u>( 2,761,000)</u>	<u>( 25,000,000)</u>	<u>( 109,407,705)</u>	<u>( 2,761,000)</u>
Balance at end of period	<u>1,409,186,232</u>	<u>1,358,584,232</u>	<u>1,431,538,232</u>	<u>P 1,409,186,232</u>	<u>P 988,689,744</u>	<u>P 1,431,538,232</u>
				<u>P 1,434,186,232</u>	<u>P 1,013,689,744</u>	<u>P 1,456,538,232</u>

### 12.2 Employee Stock Options

On January 24, 2013, the BOD of the Parent Company approved the ESOP. Under the ESOP program, the Parent Company will allocate up to a total of 5.00% of its issued and outstanding common shares to be granted to eligible employees. Share options benefit expense included as part of Salaries and employee benefits under Selling and Administrative Expenses in the September 30, 2018 consolidated statement of comprehensive income amounted to Php 7.24 million, while the corresponding credit to Retained Earnings of the same amount is presented under the Equity section of the September 30, 2018 consolidated statement of financial position. In 2015 and 2014, there are no stock options granted yet to the employees; hence, there are no share option benefits expense recognized for those years.

### 12.3 Cash Dividends

The details of the Parent Company's cash dividend declarations, both for preferred and common shares, for the nine months ended September 30 (unaudited) are as follows:

	<u>2018</u>	<u>2017</u>
Common shares	<b>P 214,730,735</b>	P 136,208,383
Preferred shares	<u><b>146,182,500</b></u>	<u>146,182,500</u>
	<u><b>P 360,913,235</b></u>	<u>P 184,935,883</u>

Of the total amount of dividends declared, dividend payments for preferred shares amounted to P 146,182,500 for both of the nine months ended September 30, 2018 and 2017.

### 12.4 Other Interim Disclosures

The Group's management is not aware of the following or is not applicable to the Group's interim operations:

- Unusual items that materially affect the Group's interim condensed consolidated assets, liabilities, equity, net income or cash flows because of their size, nature or incidents;
- Issuances of equity securities;
- Material changes in contingent liabilities or contingent assets since the last annual balance sheet date;
- Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period;
- Events that will trigger direct or contingent material financial obligations to the Group;
- Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the Group;
- Significant elements of income or loss that did not arise from the Group's continuing operations;
- Material events subsequent to end of the reporting period that have not been reflected in this report;
- Material changes in the composition of the Group, including business combination, acquisition or disposal of subsidiaries, restructurings and discontinuing operations; and,
- Any seasonal aspect that had a material effect on the consolidated financial condition or results of operation.

### 12.5 EARNINGS PER SHARE

EPS were computed as follows:

For the nine months ended September 30, (Unaudited)	For the year ended December 31, 2017 (Audited)
<u><b>2018</b></u>	<u>2017</u>



a) Net profit pertaining to common shares	<b>P 1,171,754,448</b>	P 1,290,439,696	P 1,596,939,154
b) Net profit attributable to common shares and potential common shares	1,171,754,448	1,290,439,696	1,791,849,154
c) Weighted average number of outstanding common shares	1,430,799,235	1,398,209,098	1,372,487,454
d) Weighted average number of outstanding common and potential common shares	1,430,799,235	1,398,209,098	1,377,270,489
Basic EPS (a/c)	<u>P 0.34</u>	<u>P 0.92</u>	<u>P 1.16</u>
Diluted EPS (b/d)	<u>P 0.34</u>	<u>P 0.92</u>	<u>P 1.16</u>

## 12. COMMITMENTS AND CONTINGENCIES

As of September 30, 2018 and December 31, 2017, the Group has commitments of more than P2,000 and P2,000.0 million, respectively, for expansion on petroleum retail network, depot, terminalling and logistics facilities, information technology infrastructure and other major expansions related to its business development. The Group has a network of **550** and 530 opened retail service stations as of September 30, 2018 and December 31, 2017, respectively. An additional of 10 and 8 retail service stations are under various stages of completion as of September 30, 2018 and December 31, 2017, respectively.

The Group plans to expand further its petroleum retail service stations and carry out its investments in its subsidiaries to put up depot and terminalling facilities in strategic locations and complete its chain of logistical support to strengthen its foothold in the industry.

As of September 30, 2018 and December 31, 2017, the Parent Company has unused LCs amounting to **P12,723** million and P8,652.3 million, respectively.

There are commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying interim condensed consolidated financial statements. Management of the Group is of the opinion, that losses, if any, from these items will not have any material effect on its interim condensed consolidated financial statements.

In addition, there are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

## 13. EVENTS AFTER THE REPORTING PERIOD

There are no material events that occurred subsequent to the interim period that is required to be recorded or disclosed in these interim condensed consolidated financial statements.

## 14. SEASONAL FLUCTUATIONS

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group.

## **Item II: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

Comparable discussion on Material Changes in Results of Operations for the Nine Months Ended September 30, 2018 vs. September 30, 2017.

### **Revenues, Cost of Sales and Gross Margins**

The Group's Revenues during the first nine months of 2018 grew to ₱64.963 billion, almost double the ₱32.566 billion generated during the same period in 2017. This was due to the combined effect of the 51% growth in total volume sold in the same period ( 2018: 2,022 million liters vs. 2017: 1,346 million liters), the 39% increase in the price of benchmark (Brent) crude (2018: US\$72.129/ bbl vs. US\$51.838/ bbl) and the implementation of the new excise tax rates on the sale of domestic petroleum products. This was augmented by the ₱0.634 million sales contributed by Philippine Family Mart CVS, Inc. (PFM).

The 687 million liters incremental sales volume was mainly attributable to the 522 million liters sold by Pnx Singapore. In addition, volume sold by both the parent company and Phoenix LPG Philippines, Inc. rose by 11% and 23% or 165 million liters and 24 million liters, respectively, during the comparative period.

Similarly, Cost of Sales and Services increased by 110%, from ₱27.838 billion in 2017 to ₱58.545 billion in 2018, as a result of the volume growth, aggravated by the higher product costs reflecting the global oil price movements, as well as the imposition of excise taxes on petroleum products starting in January 1, 2018.

Consequently, Gross Margin rose by 36% or ₱1.700 billion. With the volume contribution of Pnx SG Gross Margin Rate, however, decreased to 10% from the 14% registered in 2017 mainly because of the slimmer margins generally realized by international oil trading companies.

### **Operating Expenses, Non-operating Expenses, Recurring Income**

Meanwhile, Selling and Administrative Expenses of ₱4.161 billion, up by 36% versus the ₱3.050 billion incurred in 2017, primarily because of the cost outlay of the new businesses.

On the other hand, Other Net Non-operating Charges of ₱0.852 billion was 61% greater than the ₱0.529 billion incurred in 2017, mainly due to the rise in borrowing rates as well additional debt service for the acquisition of the new businesses.

Despite the increases in both operating and non-operating expenses, recurring income of ₱1.405 billion, rose by 23% from first nine months 2017 level of ₱1.139 billion.

## Non-recurring Transactions and Net Income

Meanwhile, the company recorded non-recurring transactions, principally as a result of the acquisition of the companies, ₱0.002 billion negative adjustment in 2018 versus the ₱0.397 billion positive adjustment in 2017.

Considering these adjustments, as well as the the ₱0.046 million translation adjustment related to Pnx SG, total Comprehensive Income stood at ₱1.364 billion, 5% lower than the ₱1.437 billion reported in 2017.

## Financial Condition

*(As of September 30, 2018 versus December 31, 2017)*

Total resources of the Group as of September 30, 2018 stood at ₱48.802 billion, a 9.7% growth compared to the ₱44.471 billion level as of December 31, 2017. This was mainly due to the increases in Property, Plant, and Equipment, and Goodwill, the latter of which was incurred in relation to the acquisition of Philippine Family Mart CVS, Inc.

As a result of the doubling of revenues, Cash and Cash Equivalents as well Trade and Other Receivables rose by 31.3% (from ₱1.832 billion in December 31, 2017 to ₱2.405 billion as of September 30, 2018), and 75.8% (from ₱7.509 billion as of December 31, 2017 to ₱13.203 billion as of September 30, 2018), respectively.

Inventories declined by 37.6% to ₱8.088 billion as of September 30, 2018, from ₱12.970 billion as of December 31, 2017. The build-up in December 2017 was brought about by the confluence of the following factors: to address the new businesses such as LPG with the purchase of PEPI, operation of Pnx SG and the volume requirements of the new accounts, higher price of imported petroleum products as a result of movement of prices in the international market, and the decrease in the demand for IFO by the power companies.

As of September 30, 2018, the Group's Property and Equipment, net of accumulated depreciation, increased to ₱16.304 billion versus the ₱13.401 billion as of December 31, 2017 (by 21.7%), representing the assets of the newly acquired subsidiaries as well as the continuing expansion program of the group.

Interest-bearing Loans and Borrowings, both current and non-current, was up by 4.1% from ₱28.171 billion as of December 31, 2017 to ₱29.336 billion as of September 30, 2018. The increment of ₱1.165 billion was from the availing of new loans during the quarter to finance various capital expenditures as well as working capital requirements of the new subsidiaries.

Trade and Other Payables increased by 60.6% from ₱3.833 billion as of December 31, 2017 to ₱6.159 billion as of September 30, 2018 due to the additional trade transactions of the new subsidiaries.

Total Stockholders' Equity increased to ₱12.657 billion as of September 30, 2018 from ₱11.952 billion as of December 31, 2017, (by 5.9%) resulting from the earnings generated during the period. This was partly offset by the declaration of cash dividends for both common and preferred shares. In addition, new stocks were issued in relation to the Company's Employee Stock Option Plan (ESOP).

## Key Performance Indicators and Relevant Ratios

The Group's key performance indicators and relevant ratios and how they are computed are listed below:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Current Ratio <sup>1</sup>	1.37:1	1.22:1
Debt to Equity Ratio <sup>2</sup>	2.86:1	2.72:1
Net Book Value per Share <sup>3</sup>	8.96:1	8.33:1
Debt to Equity Interest-Bearing <sup>4</sup>	2.32:1	2.36:1
Earnings per Share <sup>5</sup>	0.34*	1.16**

Notes:

1 - Total current assets divided by current liabilities

2 - Total liabilities divided by tangible net worth

3 - Total stockholder's equity (net of Preferred) divided by the total number of shares issued and outstanding

4 - Interest Bearing Debts divided by Total stockholder's equity (net of Preferred)

5 - Period or Year Net income after tax divided by weighted average number of outstanding common shares

\* Three (3) quarters figure

\*\* One (1) year figure

These key indicators were chosen to provide management with a measure of the Group's financial strength (Current Ratio and Debt to Equity) and the Group's ability to maximize the value of its stockholders' investment in the Group (Return on Equity, Net Book Value Per Share and Earnings Per Share). Likewise, these ratios are used to compare the Group's performance with similar companies.

## Material (5% or more) Changes to the Group's Balance Sheet as of September 30, 2018 vs. December 31, 2017

31.3% increase in Cash and Cash Equivalents

Increased cash inflow due to the 100% increase in revenue compared to the previous period.

75.8% increase in Trade Receivables

A result of the 100 % increase in revenue this period compared to the previous period.

37.6% decrease in Inventory

This is the normal minimum inventory requirement given the current growth in revenue.

99.3% decrease in Due from related parties

Settlement of the remaining P500 million balance of CSC spin-off

45.6% decrease in Net Input VAT

In relation to the normalized inventory movement.

93.8% increase in Prepayments and other current assets

Due to the renewal of insurances of all the assets, prepaid rentals advertising and other services and acquisitions which will cover the entire year evenly.

21.7% increase in PPE

Due to new additional expansions, new acquisitions, retail and depot facilities.

5.5% increase in intangible assets

Additions from a newly acquired subsidiary – PFM related to the franchise fee paid to use Family Mart brand.

13.0% increase in Goodwill

Due to the acquisition of PFM, Think Able and Action Able.

93.3% increase in Other Non-current Assets

Due to the acquisition of PFM and additional rental deposits for the new leases intended for network expansions.

24.6% decrease in Current Interest-bearing loans

Due to the reduced trust receipts related to the normalized inventory requirement.

60.7% decrease in Trade and Other payables

Due to the increased trade transaction of the new subsidiaries.

52.0% decrease in Income Tax payable

Creditable Withholding Tax was offset against the income tax due.

46.5% increase in Non-current Interest-bearing loans

Due the availment of certain long-term loans within the year

29.7% increase in Non-current liabilities

Due the increase security deposits from customers of PPPI and PLPI.

766.7% increase in Accumulated Translation Adjustments

Due to increased assets of the foreign currency denominated subsidiary, Pnx Singapore.

### **Material (5% or more) changes to the Group's Income Statement as of September 30, 2018 vs. September 30, 2017**

100% increase in Sale of Goods

Due to the revenues coming from the new subsidiaries namely; PLPI, Duta Group, PFM and Pnx SG, coupled with, higher fuel prices (by 39%) and additional volume sold relative to last year (by 50%). The parent company recorded an 11% improvement on its volume sold this year.

30% increase in fuel service, shipping, storage income, rental income and other revenue

This is due to the revenues from the newly acquired subsidiary – PFM.

110% increase in Cost of Sales and Services

This mirrors the increase in the sale of goods, reflecting the price movements in the world market during the first nine months of 2018 which is higher compared to the same period in 2017. The increase in excise taxes to petroleum products also contributed to the increment.

36% increase in selling and administrative expenses

This is primarily because of the operating requirements of the new subsidiaries. The expansion program of the group caused higher salaries and wages, depreciation, fuel expenses and other operating expenses. The launching of various advertisements and promotions like PULSE

Technology are also factors causing the increment.

57% increase in Finance Costs

A substantial portion represents interest from the P6B loan used to acquire Petronas during the last quarter of 2017.

23% increase in Finance Income and Others

These pertain to the reversal of certain bad debts, which were collected in 2018, and expenses accrued in the prior years which would no longer be paid.

100% decrease in One-time gain in excess of fair value over net assets acquired

The 2017 one time-gain was related to the acquisition of Petronas Energy Philippines, Inc. from which a one-time gain of P651 million was recognized. No similar transaction was recorded in 2018 yet.

14% decrease in Income Tax Expense

Effect of new ITH approved for PPPI late last year.

There are no other material changes in the Group's financial position (5% or more) and condition that will warrant a more detailed discussion. Furthermore, there are no material events and uncertainties known to management that would impact or change the reported financial information and condition of the Group.

## **PART II – OTHER INFORMATION**

1. The Parent Company held its annual stockholders' meeting last March 15, 2018 at the Phoenix Petroleum Corporate Headquarters, Lanang, Davao City, Philippines.
2. The Board of Directors approved the declaration of cash dividend of ₱0.15 per share as disclosed last March 15, 2018, with record date of April 2, 2018 and payment date of April 26, 2018.

The company also declared the following cash dividends to preferred stockholders:

- 8.25% to preferred stockholders (2nd tranche) with record date of February 22, 2018 and payment date of March 20, 2018.
- 7.427% dividend to preferred stockholders (3rd tranche PNX3A) with record date February 21, 2018 and payment date of March 19, 2018.
- 8.1078% dividend for preferred stockholders (3rd tranche PNX3B) with record date February 21, 2018 and payment date of March 19, 2018.
- 8.25% to preferred stockholders (2nd tranche) with record date of May 24, 2018 and payment date of June 20, 2018.
- 7.427% dividend to preferred stockholders (3rd tranche PNX3A) with record date May 22, 2018 and payment date of June 18, 2018.
- 8.1078% dividend for preferred stockholders (3rd tranche PNX3B) with record date August 22, 2018 and payment date of September 18, 2018.

- 8.25% to preferred stockholders (2nd tranche) with record date of August 24, 2018 and payment date of September 20, 2018.
  - 7.427% dividend to preferred stockholders (3rd tranche PNX3A) with record date August 22, 2018 and payment date of September 18, 2018.
3. As of September 30, 2018, there are no known trends or demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result, in increasing or decreasing the Group's liquidity in any material way. The Group does not anticipate having any cash flow or liquidity issues. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.
  4. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Parent Company with unconsolidated entities or other persons created during the reporting period.
  5. There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Parent Company.
  6. There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Parent Company.

## SIGNATURES

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

Registrant **P-H-O-E-N-I-X PETROLEUM PHILIPPINES, INC.**

By:



**DENNIS A. UY**

President and Chief Executive Officer



**MA. CONCEPCION DE CLARO**

Chief Finance Officer



**JONAREST Z. SIBOG**

Controller