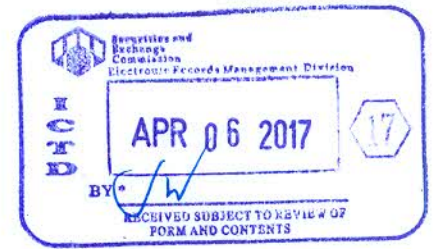




SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A



ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND  
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2016  
Date of Report (Date of earliest event reported)
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION ("Petron" or the "Company")  
Exact name of issuer as specified in its charter
5. Philippines 6.  (SEC Use Only)  
Province, country or other jurisdiction of incorporation Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550  
Address of principal office Postal Code
8. (0632) 886-3888; 884-9200  
Issuer's telephone number, including area code
9. None  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

	Number of Shares of Stock Outstanding and Amount of Debt Outstanding (as of December 31, 2016)
Common Stock	9,375,104,497 shares
Preferred Series 2A	7,122,320 shares
Preferred Series 2B	2,877,680 shares
Total Liabilities (consolidated as of December 31, 2016)	₱230.073 million

11. Are any or all of these securities listed on any 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 Shares Series 2A Preferred Shares Series 2B Preferred Shares
Philippine Dealing & Exchange Corp.	Series A Bonds due 2021 Series B Bonds due 2023

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that 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

13. The aggregate market value of the voting stock held by non-affiliates of the Company (*i.e.*, other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and the directors and executive officers of Petron Corporation) as of December 31, 2016 totaling 2,242,463,831 common shares was ₱22,312,515,118.45 based on the price of ₱9.95 per share as of December 29, 2016, the last trading day of 2016. The aggregate market value of the voting stock held by non-affiliates of the Company as of February 28, 2017 totaling 2,242,463,831 common shares was ₱19,509,435,329.70 based on the price of ₱8.70 per share as of February 28, 2017, the last trading day of February 2017. Petron had a public ownership of 23.84% as of February 28, 2017. Attached hereto as Annexes A and B are the public ownership reports of the Company as of December 31, 2016 and February 28, 2017, respectively.

#### DOCUMENTS INCORPORATED BY REFERENCE

N o n e

## PART I - BUSINESS AND GENERAL INFORMATION

### (A) Description of Business

#### (1) Business Development

##### (i) The Company

Petron was incorporated in the Philippines on December 22, 1966 as “Esso Philippines Inc.” Petron was renamed “Petrophil Corporation” in 1974 when the Philippine National Oil Company (“PNOC”) acquired it. In 1985, Petrophil and Bataan Refinery Corporation (formerly, the “Standard Vacuum Refining Corporation”) were merged with Petrophil Corporation as the surviving corporation. The Company changed its corporate name to “Petron Corporation” in 1988. The Company’s original 50-year corporate term would expire on December 22, 2016. At its meeting held on November 12, 2012, the Board of Directors approved the extension of the corporate term of the Company for another 50 years and the relevant amendment of the Company’s Articles. This proposed amendment was ratified by the stockholders at the annual stockholders’ meeting held on May 21, 2013. On September 13, 2013, the SEC approved the amendment of the Company’s Articles by extending the corporate term of the Company for another 50 years from and after December 22, 2016.

The three (3) principal common shareholders of the Company are SEA Refinery Corporation (“SEA Refinery”) (50.10%), San Miguel Corporation (“SMC”) (18.16%), and the Petron Corporation Employees’ Retirement Plan (“PCERP”) (7.80%). SEA Refinery is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

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

##### (ii) Subsidiaries

The direct subsidiaries of the Company as of December 31, 2016 are listed below:

- **New Ventures Realty Corporation** (“NVRC”) is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter’s operation. NVRC’s wholly-owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed “Las Lucas Construction and Development Corporation” upon approval by the SEC in September 2009. In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation. In 2013, NVRC further acquired 100% of South Luzon Prime Holdings Incorporated, MRGVeloso Holdings, Inc. and Abreco Realty Corp.
- **Petrogen Insurance Corporation** (“Petrogen”) is a wholly-owned subsidiary of Petron incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers.
- **Overseas Ventures Insurance Corporation Ltd.** (“Ovincor”) was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron’s insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the refinery of Petron in Bataan (the “Petron Bataan Refinery”), the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- **Petron Freeport Corporation** (“PFC”; formerly, “Petron Treats Subic, Inc.”) was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority (“SBMA”) as a Subic Bay Freeport (“SBF”) enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.
- **Petron Marketing Corporation** (“PMC”) was incorporated on January 27, 2004 with the same business purpose as PFC but operated outside the SBF. PMC is a wholly-owned subsidiary of Petron. PMC turned over to Petron the operation of service stations that PMC held and the operation of Treats stores, effective August 1, 2016 and November 30, 2016, respectively. PMC also terminated its franchises to the fastfood stores.
- **Limay Energen Corporation** (“LEC”) was incorporated on August 23, 2010. LEC became wholly owned by Petron in January 2012. The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.
- **Petron Singapore Trading Pte. Ltd.** (“PSTPL”) was established in 2010 as Petron’s trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore’s Global Trader Program, which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron’s crude selection.
- **Petron Global Limited** (“Petron Global”) is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.
- **Petron Finance (Labuan) Limited** (“Petron Finance”) is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.
- **Petrochemical Asia (HK) Limited** (“PAHL”) is a holding company incorporated under the laws of Hong Kong over which the Company obtained control in January 2013.
- **Petron Oil & Gas Mauritius Ltd.** (“POGM”) is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

Petron Oil & Gas International Sdn. Bhd. (“POGI”) is a subsidiary of POGM incorporated under the laws of Malaysia, which, on March 30, 2012, acquired 65% of the issued and outstanding share capital of Esso Malaysia Berhad (“EMB”), a publicly-listed company in Malaysia, and 100% of the issued and outstanding share capital of ExxonMobil Malaysia Sdn. Bhd. and ExxonMobil Borneo Sdn. Bhd. POGI subsequently acquired an additional 8.4% of the voting shares of EMB in May 2012 pursuant to a mandatory takeover offer. On April 23, 2012, the Companies Commission of Malaysia (“CCM”) issued a certificate for the change of name of ExxonMobil Malaysia Sdn. Bhd. to “Petron Fuel International Sdn. Bhd.” (“PFISB”) and of ExxonMobil Borneo Sdn Bhd. to “Petron Oil (M) Sdn. Bhd.” (“POMSB”). Thereafter, on July 10, 2012, the CCM

issued a certificate for the change of name of EMB to “Petron Malaysia Refining & Marketing Bhd.” (“PMRMB”).

PMRMB, PFISB and POMSB (collectively, the “Petron Malaysia Companies”) are companies incorporated under the laws of Malaysia and are engaged in the downstream oil business in Malaysia. The Petron Malaysia Companies’ distribution network includes nine (9) product terminals and one depot. The Petron Malaysia Companies has a network of approximately 580 retail service stations in the country. The rebranding and upgrading of the service stations to the Petron brand was completed in 2015. PMRMB owns and operates the 88,000 bpd Port Dickson Refinery (“PDR”). The PDR produces a range of products, including LPG, naphtha, gasoline, diesel, jet fuel, and low sulfur waxy residue (“LSWR”).

The Petron Malaysia Companies’ fuels marketing business in Malaysia is divided into retail business and commercial sales. The retail business markets fuels and other retail products through its network of service stations located throughout Peninsular and Sabah-East Malaysia. In December 2016, the Petron Malaysia Companies launched its downstream business in the state of Sarawak-East Malaysia and expects to have service stations operational in the state by the first quarter of 2017. The Petron Malaysia Companies’ commercial sales are divided into four (4) segments: industrial and wholesale, aviation fuels, LPG and lubricants/specialties. The industrial segment sells diesel and gasoline fuels to mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors while the Malaysian wholesale segment consists of sales, primarily of diesel, gasoline and kerosene, to company-appointed resellers, which sell the Company’s products to industrial customers. The aviation group mainly sells to key airline customers which operate at the Kuala Lumpur International Airport where the product is supplied through the pipeline connected to the Port Dickson Terminal. PMRMB markets LPG in 12-kg and 14-kg cylinders for domestic use. In April 2012, the Petron Malaysia Companies established a lubricants and specialties segment to introduce Petron lubricants and greases into the Malaysian market. Automotive lubricants are sold through the service stations and appointed distributors in Malaysia. PMRMB exports LSWR and naphtha from the PDR.

The above-listed subsidiaries of the Company have no plans of engaging in lines of products or services other than those provided in connection with the promotion and enhancement of the business of the Company.

The Company and its subsidiaries are not subject of any bankruptcy, receivership or similar proceedings.

## Operating Highlights

### Sales

Sales to the Philippine domestic market grew by 14.7%. The retail sector which accounts for 44% of sales, grew by 5.0%

This growth is attributed to new station builds, aggressive dealer account solicitation, and various marketing programs that attracted more motorists to Petron stations, supported by a robust economy. As of year-end 2016, the Company had a total service station count of close to 2,300 stations. The marketing programs of the Company include its cards programs, namely, *Petron Fleet Card*, *Petron Value Card*, *Super Driver Card*, and the recently launched *PVC Titanium* that recognizes top users of PVC and various promotions such as the Batman vs Superman Busts, Supercar Super Series, and Keys to Lamborghini.

Sales of LPG, which account for about 13% of sales, grew by about 15%. The growth was attributable to the expansion of dealer branch stores and retail outlets, increased participation of the Company in the refiller sector, and acquisition of major industrial accounts (e.g., new malls).

Sales to the industrial sector and other oil companies, about 41% of sales, grew by 26.3% with increased sales of jet fuel and participation in the distributor/wholesale sector for diesel and gasoline.

Sales of lubricants grew by 14.2% due to increased penetration in non-traditional outlets such as auto-supply stores and various marketing support programs for business partners to promote products at point of sale.

### Refining

- **Upgrade to Full Conversion**

The Petron Bataan Refinery Master Plan Phase-2 Upgrade (“RMP-2”) was mechanically completed in 2014. Petron’s biggest project to date upgraded the Petron Bataan Refinery to a full conversion refining complex, where all fuel oil is converted to higher valued products - gasoline, diesel and petrochemicals. This makes the Petron Bataan Refinery comparable to highly complex refineries worldwide. In the first quarter of 2015, RMP-2 facility completed its performance guarantee test run, facilitated together with the process technology licensors, to establish the capabilities of the plant against the guaranteed yields and product qualities. RMP-2 started its full commercial operation in January 2016 after the completion of the test run and stabilization of process units.

- **Eighth Consecutive Integrated Management System (“IMS”) Certification**

The Petron Bataan Refinery sustained its IMS certification for the eighth straight year. This year’s external audit is noteworthy as Production B (RMP-2) is already included in the scope of the IMS audit. The refinery passed the Quality Management System (“QMS”), Occupational Health/Safety Management System (“OHSMS”) and the Environmental Management System (“EMS”) surveillance audits conducted on June 1-3, 2016 by TÜV SÜD PSB Philippines Inc. Petron Bataan Refinery was allowed maintenance of its three (3) certificates, with the QMS and OHSMS certification valid for the period of June 5, 2015 to June 4, 2018 following compliance by the refinery with the international standards ISO 9001:2008 and BS OHSAS 18001:2007 and the EMS certification valid from August 1, 2014 until July 31, 2017 given the refinery’s compliance with ISO 14001:2004 international standard.

## Product Supply and Distribution

The Company continues to implement programs to ensure product availability and timely supply such as the program managing station inventory, adequate number of tank trucks and marine vessels and a system that allows nearby depots to support requirements of other depots in case of calamities.

## Human Resources

Management recognizes that an organization that is equipped with the right mix of characteristics and skills is key to its progress and successes. With this in mind, the Company implements various human resource programs responsive to the evolving needs of an expanding organization. The Company implements various training and development programs, continues to strengthen the leadership and management succession program to retain and develop critical talents and ensure operational continuity, develops organizational structures that will adapt to expansion initiatives and maximize workforce productivity and cultivates greater employee commitment through optimal rewards for employees' performance, work life integration programs, and safe working conditions.

## Health, Safety and Environment (“HSE”)

The Company's HSE programs continue to be an important element in the operations of its facilities. HSE programs of the Company include the following:

- **Inspection/Audit/Training.** To ensure safety and emergency preparedness of its various facilities, the Company conducts multifunctional audits and safety inspections of the depots/terminals, service stations and third party LPG filling plants. The Company participates in industry-wide oil spill response exercises through service provider, Waterborne Industry Spill Equipment Philippines. Periodic inspections of firefighting equipment, emergency drills and exercises are conducted at the Petron Bataan Refinery and the depots/terminals nationwide to enhance competency and responsiveness in addressing emergencies and disasters. A review of the different depot/terminal operations and procedures is conducted to ensure that safety is always inculcated in these activities. Safety seminars/trainings are also continuously being conducted for various stakeholders in the Company's operations to ensure that all imbibe a safety mindset.
- **HSE Systems**
  - a. ***Stations.*** The Safety Management System for service stations was launched in 2014 with the objective of elevating the level of safety awareness among the service station dealers and their employees and workers.
  - b. ***Terminals.*** All 30 terminals of the Company have updated their IMS that certification. Furthermore, all 17 pier facilities are currently compliant with the International Ship and Port Facility Security Code (“ISPS Code”) and certified by the Office of the Transport Security under the Department of Transportation (“DTr”). The ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. Petron's shipping ports for both domestic and international vessels are ISPS-certified.
  - c. ***Refinery.*** The Petron Bataan Refinery continues to conform with the international standard of Quality (ISO-9001:2008), Environment (ISO-14001:2004), and Health and Safety (OHSAS-18001:2004) and was recertified for these standards in June 2016.



With its annual safety programs, the Company achieved milestones and received recognitions from various government agencies for the year 2016. Three (3) locations received national recognition with DOLE's 10th Gawad Kaligtasan and Kalusugan, namely, Nasipit and Gasul-Legazpi with a gold rating and Tagoloan with a bronze rating. From January to December 2016, a total of about 6,167,607 safe man hours were achieved by the Head Office, the Petron Bataan Refinery and the terminals.

### **Corporate Social Responsibility ("CSR")**

As Petron strives to meet its business agenda, it also remains conscious of its social responsibility. Thus through its Petron Foundation, the Company invests significantly on programs that promote the well-being of its fenceline communities, particularly in the areas of education, environment, health and human services, and stakeholder engagement. Under the banner of Fueling HOPE, these initiatives contribute to the sustainability of Petron.

Among the CSR and sustainability activities of Petron in 2016 were the following:

- **Tulong Aral ng Petron.** In partnership with the Department of Social Welfare and Development ("DSWD"), the Department of Education ("DepEd") the Philippine Business for Social Progress and the World Vision Development Foundation, the Company continued its *Tulong Aral ng Petron* ("Tulong Aral"), a long-term, strategic initiative that helps send poor children to school, keep them there and make sure they learn. Tulong Aral has scholarship programs for elementary, high school and college students.

At the start of School Year 2016, *Tulong Aral* ng Petron had a total of 3,456 scholars from elementary to college in partner schools in the National Capitol Region (Caloocan, Malabon, Navotas, Valenzuela, Manila, Pasay, Mandaluyong, Quezon City, Parañaque, Taguig, Pateros, Pasig and Las Piñas), Luzon (Cavite, Batangas, La Union), Visayas (Bacolod City, Iloilo, Mactan, Mandaue, Roxas, Tacloban, and Tagbilaran) and Mindanao (Davao, General Santos, Iligan, Jimenez, Misamis Oriental, Nasipit, Tagoloan, and Zamboanga).

The scholars continued to enjoy the benefits of Petron's send-a-child to school program, including the provision of school supplies, shoes and uniforms; daily meal allowances for children, as well as capability building and livelihood programs for parents.

In March 2016, nearly 400 *Tulong Aral* scholars coming from Petron communities in Mandaluyong, Manila, Pasay and Navotas graduated, with the top 100 elementary graduates receiving high school scholarship. More significantly, *Tulong Aral* graduated its first seven (7) scholars from college who started the program as elementary students in 2002. Three of these graduates have since become full-time employees of Petron.

- **Other Education-Related Programs**

1. **Petron Schools.** By the end of 2016, the Company had built a total number of 105 Petron Schools throughout the country. Equivalent to 252 classrooms, these benefit over 12,300 school children.
2. **Brigada Eskwela.** Since 2007, Petron has supported DepEd's National Schools Maintenance Week. In 2016, employee volunteers and partners nationwide have helped refurbish 242 classrooms from 71 public schools in various parts of the country which brings the total number of classrooms repaired since 2007 to 1,603.

3. **Youth Entrepreneurship.** In the 11<sup>th</sup> year of the Youth in Entrepreneurship and Leadership Development (“YIELD”) Program, 100 third year students of the Muntinlupa Business High School spent their summer at select Petron stations to learn about back office operations and the rudiments of food service. This brings the total number of YIELD graduates since 2006 to 1,200.
  4. **Petron ACES.** Launched in 2015, the Petron Automotive Care Education program is a partnership with the Company’s National Sales Division which aims to provide free automotive servicing NC-II technical-vocational education to deserving youth at the Guzman College of Science and Technology. The pioneering batch of 15 scholars who qualified for the first year of the program has already graduated and are now TESDA-certified mechanics, with 14 of the 15 graduates guaranteed jobs at Petron Car Care Centers.
  5. **Reading Program.** In 2016, Petron, through its Petron Foundation, continued its partnership with the DepEd and the United States Agency for International Development (“USAID”) in improving basic education. Petron continued to make significant investments through its support to Basa Pilipinas (Read Philippines) which aims to improve the reading skills of 1 million early grades students and provide technical assistance to the DepEd on the language and literacy component for Grades 1 to 3 in Ilocos and Central Visayas.
- **Promotion of Environmental Sustainability**
    1. **Bataan Integrated Coastal Management Program (“BICMP”).** In 2016, Petron sustained its leadership role in the implementation of the Bataan Integrated Coastal Management Program (“BICMP”), a partnership with the Provincial Government of Bataan and the United Nations Development Programme’s Partnerships on Environmental Management for the Seas of East Asia (“PEMSEA”). In 2016, the BICMP completed the draft of the State of the Coasts (“SoC”) Report for the province of Bataan, with the support of the PEMSEA Resource Facility. The SoC reporting system is a tool that local governments can use in the monitoring, evaluation and reporting of their integrated coastal management (“ICM”) programs. This provides baseline conditions and priorities to be addressed in an ICM program and helps LGUs to measure and report progress and impacts of their ICM implementation.

Through the Bataan Coastal Care Foundation, an association of businesses based in the Province that collectively supports the BICMP, Petron scaled up its advocacy for a cleaner environment by sponsoring the 2016 Pawikan Festival. This annual activity of the Bataan Provincial Government raises awareness towards the protection of the threatened marine turtle species, three of which nest in the town of Morong.
    2. **Participation in the National Greening Program.** Petron continues to work with the Provincial Government, Municipal Government of Limay, PENRO-Bataan, and People’s Organizations SAMASAKA (Samahang Magsasaka Sa Kagubatan Ng Limay, Bataan, Inc.) and AFPAL (Alangan Farmers Producers Association, Inc.) to reforest a total of 300 hectares to protect the watershed of Limay. Aside from this, Petron also partnered with the City of Tacloban to adopt five (5) hectares of its coastline for mangrove reforestation, and is in the process of adopting additional areas in the provinces of Roxas and Ormoc. Through these activities, Petron sustained its support to DENR’s National Greening Program.

3. **Scholarship program for marine environment experts.** Together with San Miguel Foundation, Petron continued to sponsor the Professional Masters in Tropical Marine Ecosystems Management (“PM-TMEM”) program which is being implemented by the U.P. Marine Science Institute. The first in the country, this 1 ½ year post-graduate academic program develops marine environment experts. Petron’s first three scholars from PG-ENRO Cavite, and DENR Region 9 (Pagadian City) and Region II (Davao City) completed their studies last June. A fourth scholar from Mabini, Batangas, is currently enrolled in the program’s 2<sup>nd</sup> cycle. These PM-TMEM scholars serve as scientific and technical experts that can be readily tap as resource in the development and implementation of Petron’s environmental programs.
- **Community-Based Programs.** Petron’s community-based programs benefit residents close to Petron facilities. The community-based programs include:
    1. **Sulong KaBarangay Program in Bataan.** The *Sulong KaBarangay* program, a public-private partnership among the local government of Limay, DSWD and Petron. The Samahang Alangan at Lamao para sa Pag-Unlad, Inc., a group formed through the *Sulong Pangkabuhayan* (livelihood assistance project) in 2012, continued to supply the Petron Bataan Refinery’s rug requirements and has been producing doormats for local markets.
    2. **Livelihood Programs.** A donation of seed money to the Municipality of Rosario in Cavite in 2011, allowed a total of 3,921 residents to secure loans for personal use and to start or enhance their livelihood activities.
 

Petron and the Municipality of Rosario also established the *Tulong Aral* Livelihood Program with 27 mothers of *Tulong Aral* scholars as its first beneficiaries. They were given skills training in rag making and have set-up a cooperative with the help of the Municipality of Rosario. They now supply Petron Rosario depot and the local market with rags.
  - **Responding to Crises.** In 2016, Petron extended its assistance to families affected by major calamities. In December, Petron donated P4.5 million worth of shelter repair kits through the Philippine Business for Social Progress for families displaced by supertyphoon *Lawin* in the province of Cagayan. Petron Foundation helped distribute the repair kits for 300 families in the towns of Tuao, Enrile, and Amulong, with each beneficiary receiving P15,000 worth of construction materials to rebuild their houses.

## **Petron Malaysia**

The Petron Malaysia Companies have completed the upgrading of the product terminals to comply with the B7 biodiesel and U97 E4M requirements. This is in line with the government’s thrust of providing cleaner and more environment friendly fuels to the consumers. The Petron Malaysia Companies also completed the rebranding and modernization of the more than 100 road tankers which transport products throughout the country. As part of the rebranding program, three (3) card programs, *Petron Miles* loyalty card, Petron Fleet Card with microchip technology and co-branded Petron and Public Bank Visa Card program, were launched.

## (2) Business of Petron

### (i) Principal products or services and their markets

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, naphtha, LPG, diesel, jet fuel, kerosene, asphalts and petrochemicals (benzene, toluene, mixed xylene, propylene and polypropylene). When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are the reseller (service station), industrial, LPG and lube trades. Petron sells its products through a nationwide network of service stations, LPG dealerships and lube outlets and to industrial end-users and bulk off-takers.

The Company also continues to expand its non-fuel businesses with the addition of various food kiosks and restaurants, and other service establishments at some of its stations.

### (ii) Percentage of sales or revenues contributed by foreign sales

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2013 to 2015:

	Domestic	Exports/International	Total
2014, in million pesos	276,731	205,804	482,535
2014, in percentage	57%	43%	100%
2015, in million pesos	213,683	146,495	360,178
2015, in percentage	59%	41%	100%
2016, in million pesos	205,411	138,429	343,840
2016, in percentage	60%	40%	100%

### (iii) Distribution methods of products or services

Petron's bulk petroleum products are refined from crude oil at the Petron Bataan Refinery in Limay, Bataan. From the Petron Bataan Refinery, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts.

Lubes and greases in various packages are transported via container vans to the warehouses of lube distributors.

Petron has a nationwide network of LPG retail dealerships and outlets. Service stations also carry *Gasul* products and accessories and lube products.

(iv) New products or services

The Company's new products are described below.

- **Development of Blaze 100 Euro 5**

Petron marked another break through by launching Blaze 100 Euro 5, the most advanced and the only 100 octane premium plus gasoline in the country.

Petron Blaze 100 Euro 5 is the country's first and only premium plus gasoline with 100 octane to date that complies with the European Fuel Quality Standard (EN 228:2012) that meets Euro 5 technology vehicles.

- **Development of Petromar XC 1240**

Petron developed a special formulation of trunk piston engine oil, Petromar XC 1240 to meet the performance requirements of an industrial account. Petromar XC 1240 is a 12 BN SAE 40 oil especially designed for the lubrication of high and medium speed trunk piston engines using diesel fuel.

- **Development of Engine Oils for Petron Malaysia**

Petron continues to provide research and development support to Petron Malaysia with its fuel and lubricant business. In 2016, in addition to the existing lubes product line of Petron Malaysia, Petron also developed the following engine oils to be more competitive in Malaysia's local market:

- a. Blaze Racing Fully Synthetic 0W-20
- b. Blaze Racing Premium Multi-grade 5W-30 API SN
- c. Rider 4T Synthetic Blend 10W-40 API SL
- d. Rider 4T Premium Multi-grade 15W-40 API SL
- e. Petron Multi-vehicle ATF
- f. Petron STOU 15W-40

- **Development of Engine Oils and Grease**

Petron developed specially formulated products to cater the requirements of different Automotive Original Equipment Manufacturers and in the local and international market.

- a. Ultron Touring 15W-40
- b. Sprint 4T Enduro 15W-40
- c. Blaze Racing Fully Synthetic 5W-40 API SN
- d. Rev-x Premium Multi-grade 15W-40 API CJ-4/SN
- e. Blaze Racing 10W-30 API SL
- f. Blaze Racing Synthetic Blend 5W-30 API SM
- g. Rev-X Multi-grade 20W-50 API CH-4

- **Development of Products with High Temperature Protection**

Petron developed high tier, high performance products that will provide excellent performance even at extreme temperature and service operating condition.

- a. Petron Blaze Racing HTP
- b. Petron Rev-x Turbo HTP
- c. Petron ATF Premium HTP
- d. Petron Brake Fluid HTP
- e. Petron Gear Oil HTP
- f. Petron Grease HTP

**(v) Competition**

Petron operates in a deregulated oil industry along with more than 90 other industry players. With several players sharing in the market, competition is intense. Retail and depot network expansion, pricing, and various marketing programs are being employed to gain a bigger share of the domestic market. However, Petron's wider retail and depot network allows it to expand its reach in the domestic market more effectively. Moreover, with its upgraded refinery, Petron now produces more fuels, namely, gasoline, diesel and jet fuel.

**(vi) Sources and availability of raw materials and the names of principal suppliers**

In 2016, Petron purchased all its term and spot crude requirements through its wholly-owned subsidiary, PSTPL. Majority of the crude purchases was sourced from under term contract with two (2) suppliers. For its 2017 crude requirements, Petron, through PSTPL, renewed its crude oil supply agreements with these suppliers for the period January to December 2017.

Petron purchased its finished product import requirements in 2016 also through PSTPL. For 2017, aviation gas, asphalt and baseoil contracts were renewed for the period January to December 2016 likewise through PSTPL.

On its requirements for ethanol, the Company continued to support the directive of the Department of energy ("DOE") on prioritization of locally-produced ethanol, complying with the required monthly allocation. Around 44% of the total ethanol requirement of the Company was sourced from various local ethanol producers.

**(vii) Dependence on one or a few major customers and identity of any such major customers**

Petron and its subsidiaries do not have a single external customer from which sales revenue generated amounted to 20% or more of the total revenue.

**(viii) Transactions with and/or dependence on related parties**

Petron, and certain of its subsidiaries and its associates and joint venture, as well as SMC and its subsidiaries, purchase products and services from one another in the normal course of business.

It is the policy of the Company that transactions with related parties are on an arm's length basis in a manner similar to transactions with non-related parties. Related party transactions are made at normal market prices and terms. To ensure that this policy is implemented, the Company undertakes an assessment at each financial year by examining the final position of the related party and the market in which the related party operates.

Described below are transactions of Petron with related parties:

1. Petron entered into a lease agreement with San Miguel Properties, Inc. for office space covering 6,802 square meters. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.
2. Petron also pays SMC for its share in common expenses such as utilities and management fees for the leased office space.
3. Petron has long-term lease agreements with NVRC covering certain parcels of lands where some of its depots, terminals and service stations are located.
4. Petron partly retails its fuel products through its subsidiaries, PMC, PFC, and PSTPL, as well as lubes through PFSIB.
5. Petron obtains insurance coverage from Petrogen which, in turn, obtains reinsurance coverage from Ovincor and other local reinsurers.
6. Petron made certain advances to PCERP for investment opportunities.
7. Petron has an existing trading agreement with PSTPL for the procurement of crude oil, and trading of finished petroleum products and other materials such as ethanol, coal, and additives.
8. Petron engaged PSTPL to perform the chartering function such as the renewal and negotiation of contract of affreightments and commodity risk management via hedging transactions.
9. Petron provides general management services to PFISB.
10. Petron has existing supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
11. Petron purchase goods and services, such as those related to construction, information technology, shipping and power, from various SMC subsidiaries.
12. NVRC and SMC subsidiaries entered into various lease agreements for portion of lands located at Limay, Bataan.
13. Petron reacquired the Refinery Solid Fuel Fired Power Plant from SMC PowerGen Inc.

**(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements**

The Company's intellectual property registrations and applications as of December 31, 2016 are described below.

**Approved Trademark Registrations.** Petron has trademark registrations for a term of 20 years for its Petrogrease, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Gearkote, Cablekote, REV-X superdiesel Multigrade, "AS" Petron, Grease Solve, Petrokote, Petron 2040, Petron XD3, Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradename), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil, Oil Saver, DCL 100, Milrol, Petropen, Petron GST, Petron with XCS, With XCS, Super DC, LPG Gasul Cylinder 2.7 kg. Petromul CSS-1, New Petron Logo, Power Booster, Zerflo, TDH 50, Automatic Transmission Fluid, Petrotherm 32, Petrosine, Petron HDX, Petron TF, Petron, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Lubritop, Antimist, Molygrease, Petron GX and Extra with a car device against a red background.

Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Extra, Sprint 4T, Xpert Diesel Oils, Penetrating Oil, Solvent 3040, Ultron Race, Ultron Touring, Lakbay Alalay, Blaze, Clean 'n Shine, Fuel Hope, Fuel Success, Fuel X Fuel Customer Experience, Pchem, Petron Farm Trac Oil for Farm Equipment, Petron Freeport Corporation, Petron Marketing Corporation, PetronConnects, Treats (for bottled water), Tulong Aral ng Petron & Device, Ultimate Release from Engine Stress, Xpert sa Makina X-tra ang Kita, "Your friend on the Road", Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Xtend, Car Care & Logo, Go for the Xtra Miles, e-fuel, Rider, Enduro, Extra, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED. Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED. Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, Bulilit Station, Bulilit Station (Gasoline Station), How far can you go on one full tank these days?, Fuel Journeys, Petron Lakbay Pinoy, Petron Pinoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Econo, Elite, Pantra, Limay Energen Corporation, Racer Maximum Performance, Petrolene, Petron Value Card and Device, Pstore, Pmart, Pshop, Go Petron! Get Rewards & Benefits, TSI and Device, Footprints Inside a Sphere & Device, Lakbay Alalay Para sa Kalikasan, Everyone's Vision & device, Petron Super Xtra Gasoline, Xtra Advance, Petron Ronnie Mascot in Seatbelt & device, Petron Super Driver, Maxi Gas, Xtra Exceed, Xtra Ultra, Xtra Prime, Xtra Miles, Pinoy HP Gasoline, Xtra Excel, UnliPower Saver Gasoline, Ultramax Gasoline, Ecomax Gasoline, PMax Gasoline, Pharmacy Plus, Triangle Device, Boomerang Device, Ronnie Mascot, and AR Scan, View it & device, Seat Belt Lives, See It & device, Privilege Miles Card & device, Petron Fleet Card & device, Blaze 100 Octane Euro 4 & device, Aim here & device, Focus here & device, AR View & device, AR Focus & device, Pay with Points Save your Cash, AR Spot & device, Scan It & device, Road Safety & device, Miles, Petron Chinese Name (flag type), Petron Chinese Name (long type), Super Tsuper Gift and App, Xtra Advance (inside a rectangle device), Petron Blaze 100, Petron XCS3, Champion Gasoline, Everyone's Shop & Device, Gasulito, REV-X, Petron Blaze Spikers, Thermal Stress Stabilizing System, Dynamic Cleaning Technology, Miles Better, Your Feet Your Rules, Xtra Advance Euro 4 & Device, Petron Super Xtra Gasoline Euro 4 & Device, Diesel Max Euro 4 & Device, Turbo Diesel Euro 4 & device, XCS Euro 4 & device and Fast Gas Fast Prize, Carbon Buster, Petron Canopy Fascia, Diesel Max, Petron PMB, Blu & Device, Blu with Gasul Tank, Puno ng Buhay, Tri-Action, Blaze Racing, Tri Plus, Gas Padala, Lakbay Ligtas, Petromate are registered for a term of 10 years.

**Pending Trademark Registration Applications.** Petron has pending applications for registration of the following trademarks: Sagip Alalay, Petron Canopy Fascia, Petron XCS3 Triple Action Premium Unleaded, Euro 4 (stylized), Mix & Treats device, Treats Plus & device, Everyone's Treats, Super Treats & device, Accident Insurance & device, Stylized P & device, Towing & Roadside Assistance device, Thermal Control System, Carbon Buster, Diesel Max, Petron PMB, Blu & Device, Blu with Gasul Tank, Puno ng Buhay, Tri-Action, Triple Action Fuel, Blaze Racing, Tri Plus, Tri Activ, Gas Padala and Lakbay Ligtas.



Petron also has registered and pending trademarks in Malaysia, Indonesia, Cambodia, Thailand, Myanmar, Australia, China, United Kingdom, India, Japan, Republic of Korea, Singapore, Hong Kong, China and Saudi Arabia. The Company has filed 176 trademark applications in Malaysia relating to its Malaysian operations. It has obtained copyright protection for the stylized letter “P” and has registered trademarks in Malaysia, including the “*Petron (Class 9)*”, “*Petron Logo*”, “*Gas Miles*”, “*Gasul*”, “*Fiesta Gas*”, “*Energen*”, “*Petron Plus (Class 9)*”, “*Perks*”, “*Miles*”, “*Propel*”, “*XCS*”, “*Petromate*”, “*Hydrotur*”, “*Miles with P-Logo*”, “*MILES with P Logo and ‘Privilege Miles Card’ words*”, “*Petroil*”, “*Fuel Journeys*”, “*Better by Miles*”, “*Petron Cares*”, “*DCL 100*”, “*Petromar*”, “*Energy*”, “*Treats with Crocodile Logo*”, and “*Petron Greenfuel*”, “*Kedai Mart with P logo*”, “*Rider*”, “*Rider 4T*”, “*Petrolaysia*”, “*Prime*”, “*Petron with Canopy Fascia logo*”, “*Petron Racing*”, “*Sprint 4T*”, “*Rev-X Diesel Engine Oils*”, “*Prestige*”, “*Xtra Mile*”, “*Xtra Unleaded*”, “*Treats & Device*”, “*Petron Value Card Rewards & Benefits*”, “*Turbo Diesel*”, “*Diesel Maz*”, “*Blaze Gasoline*”, “*Petron XCS3*”, “*Powerburn 2T & Device*”, “*Racing*”, “*Powerburn*”, “*Petrogrease*”, “*Greaseway*”, “*GEP*”, “*Gearfluid*”, “*Clean ‘n Shine*”, “*ATF*”, “*Treats & Device*”, “*Powered by Petron*”, “*Miles with P Logo & Petrol Word*”, “*Petromar HD*”, “*Petrogrease EP*”, “*Blaze with P Logo and Petrol*”, “*Fuel Trust*”, “*Fuel Success*”, “*Fuel Hope*”, “*Blaze Racing*”, “*Fuel Care*”, “*Treats*”, “*Petron Motorsports*”, “*Fuel Life*”, “*Fueled by Petron*”, “*Miles Better*” and “*Your Fleet Your Rules*”.

**Copyrights.** Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter “P” and two (2) flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights are protected during the lifetime of the creator and for 50 years after his death.

**Utility Models.** Petron has registration for the following utility models: (i) Carbon Buster (process) and (ii) Carbon Buster (composition). The term of the utility model is seven (7) years from date of filing of the application.

#### **(x) Government Approval of Principal Products or Services**

Government approval of Petron products and services is not generally required. Petroleum products, both locally refined and imported, however, must conform to specifications under the Philippine National Standards. Importations of petroleum products and additives are reported to the DOE, in accordance with the Downstream Oil Industry Deregulation Act of 1998 and its implementing rules and regulations. Clearances are secured from concerned government authorities for importations of restricted goods. The supply of products or services to government and government agencies undergo a bidding process in accordance with law.

#### **(xi) Effect of existing or probable government regulations on the business**

- **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.

- 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/cocomethyl 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 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) through various tax incentives. Renewable energy developers will be given a seven (7)-year income tax holiday, power generated from these sources will be VAT-exempt, and facilities to be used or imported will also have tax incentives.
- Compliance with Euro 4 standards. The DENR issued in September 2010 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 (PNS) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.
- LPG Bill. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices.
- DOE 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 DTI and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.
- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority (“MARINA”) mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.
- 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.

- Oil Marine Pollution Circulars. The Philippine Coast Guard is finalizing memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by oil tankers, vessels other than oil tankers, land-based facilities/downstream and midstream sector and offshore/upstream facilities and vessels engaged in petroleum exploration, development and production operations. 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 its power to review 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 and 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.
- Cabotage Law. Republic Act No. 10668, approved in July 2015, amended the decades-old Cabotage Law and now allows foreign ships carrying imported cargoes and cargoes to be exported out of the country to dock in multiple ports. Foreign vessels will be allowed to transport and co-load foreign cargoes for domestic trans-shipment. This seeks to lower the cost of shipping export cargoes from Philippine ports to international ports and import cargoes from international ports.
- Tax Reform Bill. The government eyes restructuring excise taxes on oil products. House Bill 4774 proposes imposition of higher excise taxes on petroleum products starting 2017, with 4% escalation every year thereafter beginning January 1, 2020, unless the average Dubai price exceeds US\$100/bbl. The incremental excise tax will further be subject to 12% VAT. Proposed excise tax for lubes, naphtha, gasoline and jet fuel are P7 per liter in 2017, P9 per liter by 2018 and P10 per liter by 2019. Meanwhile, for LPG, kerosene, diesel and industrial fuel oil, which currently are not levied excise tax, the proposed rate is P3 per liter in 2017, P5 per liter by 2018 and P6 per liter by 2019. The proposed bill also includes administrative reforms such as the adoption of fuel marking and monitoring system to prevent smuggling.

**(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities**

The Company’s Research and Development (“R&D”) is responsible for all product development that complies with government laws and regulations such as the Clean Air Act and the Biofuels Act. Other drivers of product innovations are the requirements of original engine manufacturers and the latest technological trends in the industry.

R&D spent a total of ₱66.24 million in 2016, slightly higher than ₱65.21 million in 2015. Expenses in 2014 amounted to ₱66.22 million.

### **(xiii) Costs and effects of compliance with environmental laws**

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. In 2016, the Company spent a total of ₱201.50 million for treatment of wastes, monitoring and compliance, permits and personnel training at the Petron Bataan Refinery. In 2015, the Company spent a total of ₱193.90 million for treatment of wastes, monitoring and compliance, permits and personnel training at the Petron Bataan Refinery.

### **(xiv) Total number of employees**

As of December 31, 2016, the Company had 3,025 employees, with 2,459 employees in the Company (comprising one president, one general manager, 26 vice presidents and assistant vice presidents, 1,595 managerial, professional and technical employees, and 836 rank-and-file employees); 532 employees of the Company's Malaysian operations; twelve (12) in PSTPL; and 22 in PMC and PFC.

Petron has CBAs with its three (3) unions, namely: (i) Bataan Refiners Union of the Philippines ("BRUP"), which is affiliated with the Philippine Transport and General Workers Organization; (ii) Petron Employees Labor Union ("PELU"), affiliated with the Philippine Transport and General Workers Organization and (iii) Petron Employees Association ("PEA"), which is affiliated with the National Association of Trade Unions. BRUP's CBA covers the period January 1, 2014 to December 31, 2018. PELU's CBA is in effect from January 1, 2014 to December 31, 2018. The PEA's CBA covers the period from January 1, 2015 to December 31, 2019.

In addition to the statutory benefits, the Company provides medical and life insurance, vacation, sick and emergency leaves, and computer and emergency loans to employees. It has a savings plan pursuant to which an eligible employee may contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a corresponding maximum of 10% to the member-employee's account in the savings plan.

### **(xv) Major Risks Involved**

#### **(i) Risk Management Framework and Process**

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

The Company's risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks.

As Petron's operation is an integrated value chain, risks emanate from every process and some can cut across divisions. The results of these activities flow up to the Management Committee and eventually the Board through the Company's annual Business Planning process.

Oversight and technical assistance is likewise provided by corporate units with special duties. The Risk and Insurance Management Group is mandated with the overall coordination and development of the enterprise-wide risk management process. The International Trade Finance Section of the Treasurers Department is in charge of foreign exchange hedging transactions. The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions. The Corporate Technical & Engineering Services Group oversees compliance with the domestic and international standards set for health, safety and environment. The Internal Audit Department is tasked with the implementation of a risk-based auditing. Commodity price risk is a major area being managed by the Commodity Risk Management Department ("CRMD") of the Supply Division, under the guidance of the

Commodity Risk Management Committee (“CRMC”) composed of cross-functional senior and middle management. The CRMC oversees the long-term and short-term commodity hedging program which includes risk assessment, authorized hedging instruments and hedging tenor. Hedging strategies are developed by the CRMD which also monitors commodity risks, sets controls, and ensures that risk management activities stay within the board-approved limits and parameters approved by CRMC. PSTPL executes the hedging strategies involving crude and product imports and exports on behalf of the Company.

#### (ii) Major Risks

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2016 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company’s operations. These risks were the following:

- Foreign exchange risk arising from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. In addition, the Group’s exposure to foreign exchange risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of the Petron Malaysia Companies 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. Changes in the foreign exchange rate would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.
- The risk of substantial disruptions in the Company’s operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of capital expansion activities. These disruptions may result in injury or loss of life, as well as financial losses should these disruptions lead to product run-outs, facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.
- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company’s supply chain, as well as higher financing expenses.
- Regulatory risk, arising from changes in national and local government policies and regulations that may result in substantial financial and other costs for the Company, either directly or indirectly.

Except as covered by the above mentioned specific risks, the Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk. These risk factors either have a low probability of occurring or have an insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.

#### (iii) Management of Major Risks

##### (a) Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.

- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through an enterprise resource planning software that monitors financial transactions. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

(b) Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in these units can have severe and rippling effects.
- The Refinery Division and the Petron Malaysia Companies have been implementing programs designed to directly promote the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of safety and continuous process improvement.
- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.
- The Company has complied with and has been certified to be compliant with the strictest international standards for quality management system under ISO 9002:1994 in August 1998; and for environmental management system under ISO 14001:1996 in September 2004 and was upgraded and certified to ISO 14001:2004 in October 2006 up to present for its refinery operations. The refining division is currently implementing and maintaining an IMS composed of Quality Management System (ISO 9001:2008); Occupational Health and Safety Management System (OHSAS or ISO 18001:2007); Environmental Management System (ISO-14001:2004), certified and recertified since July, June and May 2009, respectively, up to present.
- All of the Company's 30 terminals have updated their Integrated Management System certification for 2016. The following locations are compliant to the latest version of Quality Management System (ISO 9001:2015) and Environmental Management System (ISO14001:2015): (i) Nasipit Terminal; (ii) Gasul San Fernando Terminal; (iii) Mandaue Terminal; and (iv) Subic Blending Plant.
- Furthermore, all our 17 pier facilities are certified by the Office of the Transport Security under the Department of Transportation (DTr) and are also compliant with the International Ship and Port Facility Security Code ("ISPS Code"). The ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. Petron's shipping ports for both domestic and international vessels are ISPS-certified.

(c) Profit margin and cash flow risk

- Margin hedging strategies are used in order to eliminate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future dollar prices of Dubai crude oil and that of a selected product manufactured from the crude. This partially locks in the refining margin of the Company.
- Price exposures are managed through commodity hedging to counter abrupt and significant drops in prices resulting in inventory losses on both crude and petroleum products. Considering that the Company keeps crude and product inventories, any drop in price affects profit margin.

- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.
- The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It likewise maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

(d) Regulatory risk

- The Company maintains strong lines of communication with its various counterparties in government and in the public arena, in both local and national levels. The Company uses these lines of communication to identify potential risk factors and respond to these in a proactive manner.
- The Company remains compliant with the various environmental standards set by the government.

## (B) Description of Property

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan, with a crude distillation capacity of 180,000 barrels per day. Its other major process units include: conversion units-delayed coker and catalytic cracking units, reformers for gasoline production; desulfurization units for naphtha, diesel and jet fuel; petrochemical units for production of benzene, toluene, mixed xylene and propylene; other supporting units like power/steam generation facilities, waste water treatment facilities; and several crude and product storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude carriers.

Petron operates an extensive network of terminals, depots, LPG and aviation plants which are located in Luzon, Visayas and Mindanao. Its terminals are in Limay, Bataan; Mabini, Batangas; and Mandaue City, Cebu. Its depots are located; Poro Point, San Fernando, La Union; Navotas, Metro Manila; Rosario, Cavite; Pasacao, Camarines Sur; Puerto Princesa, Palawan; Culasi, Roxas City; Lapuz, Iloilo City; Bacolod City, Negros Occidental; Linao, Tagbilaran City, Bohol; Ormoc City, Leyte; Anibong, Tacloban City; Isabel, Leyte; Tagoloan, Misamis Oriental; Sasa, Davao City; Iligan City, Lanao del Norte; Jimenez, Misamis Occidental; Bawing, General Santos City; Nasipit, Agusan del Norte; and Zamboanga City. Its sales offices are located in Tondo, Manila; Calapan, Oriental Mindoro; San Jose and Mamburao in Occidental Mindoro; Masbate; Bicol; and Amlan, Negros Oriental. Petron has an LPG terminal in Ugong, Pasig City and LPG depots in San Fernando, Pampanga; San Pablo City, Laguna; and Legazpi City, Albay. Among its other installations are the aviation depots at JOCASP-NAIA, Pasay City and Mactan, Cebu; airport installations at Laoag City and Davao City; and an additive plant in Subic, Zambales.

The Company entered into commercial leases with the PNOC for parcels of land occupied by the Petron Bataan Refinery, depots, terminals and some of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. Expenses relating to the PNOC leases amounted to ₱272.70 million in 2016.

Petron anticipates that it may lease desirable lots from NVRC and third parties for development as service stations and for its refinery expansion projects in the next 12 months.

## (C) Contingent Liabilities

Petron is involved in certain cases, the material of which are discussed below:

### 1. Tax Cases

- **Petron Corporation vs. Commissioner of Internal Revenue**  
SC-G.R. SP No. 204119-20  
Supreme Court  
Date Filed: December 2012

Background: In 1998, the Company contested before the Court of Tax Appeals (“CTA”) the collection by the Bureau of Internal Revenue (“BIR”) of deficiency excise taxes arising from the Company’s acceptance and use of tax credit certificates (“TCCs”) worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of companies registered with the BOI, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the Court of Appeals (“CA”).

On March 21, 2012, the CA promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by Petron as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Company filed its comment on BIR’s petition for review on *certiorari*.  
Exposure: ₱1,107,542,547.08 plus 20% annual interest and 25% surcharge from April 22, 1998

Relief sought on Appeal: The petition for review on *certiorari* filed by the BIR seeks the reversal of the decision of the CTA in favor of Petron, setting aside the BIR assessment in relation to Petron’s payments of excise taxes through TCCs.

Status: The petition for review on *certiorari* filed by the BIR was still pending as of December 31, 2016.

### 2. Pandacan Cases

- a. **Petron Corporation v. The City of Manila, et al.**  
Civil Case No. 07-116700  
RTC Manila Br. 41  
Date Filed: February 8, 2007  
CA-G.R. CV No. 100218  
Court of Appeals  
Date Filed: January 23, 2013

Background: The City Council passed the Manila Comprehensive Land Use Plan and Zoning Regulations of 2006 (“Ordinance No. 8119”), which was approved by Mayor Jose L. Atienza on June 16, 2006. Ordinance No. 8119 reclassified the area of the Pandacan depots from Industrial to High Density Residential/Mixed Use Zone. Ordinance No. 8119 gave non-conforming establishments, including the oil depots, seven (7) years to phase out or relocate.



Shell and Chevron filed their complaint questioning Ordinance No. 8119. The Company, which was not allowed to intervene, filed a separate complaint on February 8, 2007, questioning the validity of the Manila City Ordinance No. 8119.

On August 24, 2012, the Regional Trial Court of Manila (“RTC of Manila”) ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC of Manila upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. As an update, Petron filed a notice of appeal on January 23, 2013. In compliance with the order of the CA dated April 15, 2013, Petron submitted its appellant’s brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila’s appellee’s brief dated December 12, 2013. Petron filed its appellant’s reply brief on February 11, 2014.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan. However, this case apparently has been rendered moot by the Supreme Court’s decision in G.R. Nos. 187836 and 187916 discussed below.

Relief sought: Nullification of Ordinance No. 8119

Status: Petron has filed its appellant’s brief and reply brief in response to the City of Manila’s appellee’s brief. The appeal remains pending.

**b. Social Justice Society (“SJS”) v. Alfredo S. Lim  
SC G.R. No. 187836 Supreme Court**

Background: This is a petition for prohibition by SJS against Mayor Alfredo S. Lim for nullification of Ordinance No. 8187 which repealed both City Ordinance Nos. 8027 and 8119, effectively allowing the continued operation of the oil depots at Pandacan.

On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the Supreme Court (“SC”), seeking the nullification of Ordinance 8187. The lawyers of the oil companies have met and would come up with a plan of action, including intervention once the SC directs the City of Manila to comment or gives due course to the petition. There has been no official action from the SC on this latest petition yet. The City filed its Comment on August 13, 2009. Petron filed a motion for leave to intervene dated November 27, 2009 and a comment-in-intervention dated November 27, 2009. The comment-in-intervention was allowed by the SC.

Petron filed a manifestation on November 30, 2010 informing the SC that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

This case is consolidated with SC G.R. No. 187916.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Status: The case was decided together with G.R. No. 187916 discussed below.

**c. Jose L. Atienza vs. Mayor Alfredo S. Lim  
SC G.R. No. 187916 Supreme Court**

Background: This is the second petition filed against Ordinance 8187. Former Manila Mayor Atienza filed a petition for certiorari for the nullification of Ordinance No. 8187.

On June 5, 2009, former Manila Mayor Jose L. Atienza, represented by the former City Legal Officer, filed his own petition with the SC seeking to stop the implementation of Ordinance 8187. The City of Manila filed its Comment on August 13, 2009.

Petron filed a manifestation on November 30, 2010 informing the SC that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the SC issued a decision (“November 25 Decision”) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Company the Supreme Court denied Shell’s motion with finality and clarified that “relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.”

On May 14, 2015, the Company filed its submission in compliance with the November 25 Decision.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Status: The Resolution dated March 10, 2015 was declared by the SC as final.

**3. Guimaras Oil Spill**

**a. In the Matter of the Sinking of the MT Solar I  
SBMI No. 936-06  
Special Board of Marine Inquiry**

Background: Petron hired on a “single voyage basis” the vessel MT Solar I owned by Sunshine Maritime Development Corporation (“SMDC”) for the transport of industrial fuel oil from the Petron Bataan Refinery to Zamboanga. Petron, as a shipper of the cargo, conducted inspection of the vessel MT Solar I and likewise, relied on the documents presented by SMDC as carrier. Petron also relied on the implied warranties of SMDC as a carrier with respect to the

seaworthiness of the vessel MT Solar I and other statutory/trading certificates issued by MARINA and other pertinent government agencies.

SMDC, taking into consideration the vessel's trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis and relying on the declaration of SMDC, Petron loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.

In September 2006, the Special Board of Marine Inquiry ("SBMI") was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

On November 21, 2006, Petron filed a memorandum of appeal with the DTr (then "Department Transportation and Communication ("DOTC"), elevating the disputed ruling of the SBMI for review. The appeal to the DOTC of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of December 31, 2012.

Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

Relief sought: Reversal of the SBMI's initial finding that Petron was liable for allegedly overloading the vessel.

Status: The matter was still pending with the DOTC as of December 31, 2016.

- b. Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.**  
**Civil Case No. 09-0394;**  
RTC Br. 65, Jordan, Guimaras

**Oliver S. Chavez, et al. v. SMDC, Petron, et al.**  
**Civil Case No. 09-0395;**  
RTC Br. 65, Jordan, Guimaras

Background: These are complaints for damages filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment from the defendants of their claims for damages arising from the oil spill due to the sinking of MT Solar 1 on August 11, 2006. Total claims for both cases amount to ₱291.9 million (₱286.4 million and ₱5.5 m). The reception of plaintiffs' evidence is on-going.

In the Arsenal case, respondents filed a motion to hear affirmative defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. The respondents went to the CA on a petition for *certiorari*. The respondents filed with the CA a compliance with the resolution requiring submission of pleadings and orders. The complainants filed their comment on the petition and the respondents filed their reply to the said comment. On May 29, 2014, the CA rendered a decision directing the plaintiffs to file their respective affidavits substantiating their claims of indigency. The plaintiffs filed a motion for partial reconsideration of the decision which was denied by the CA on January 30, 2015.

In the Chavez case, the respondents likewise filed the same motion based on the same grounds. The lower court also denied the motion so the respondents went to the CA on a petition for *certiorari*. The CA dismissed the petition for failing to attach the necessary pleadings and orders.

Status: Both the Arsenal and Chavez cases have been remanded to and are now pending with the trial courts.

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"Part II - Securities of the Registrant" follows on next page]*

## PART II - SECURITIES OF THE REGISTRANT

### (A) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters

#### (1) Market Information and Voting Rights of Shares

The common and preferred shares of Petron are traded at the PSE.

Each common share is entitled to one vote.

Preferred shareholders have no voting rights except under instances provided under the Corporation Code of the Philippines, including, but not limited to, the following cases: (i) amendment of the Company’s Articles or the Company’s By-laws, (ii) the extension or shortening of Petron’s corporate term, (iii) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of Petron, (iv) increasing or decreasing capital stock, or (v) a merger or consolidation involving Petron.

As of February 28, 2017, the Company had approximately 148,097 stockholders. As of December 31, 2016, the total number of stockholders of the Company was 148,293. As of December 31, 2015, the total number of stockholders of the Company was 149,601. As of December 31, 2014, the total number of stockholders of the Company was 151,189.

On March 5, 2015, the preferred shares of the Company issued in 2010 (the “PPREF Shares”) were redeemed by the Company in accordance with the approval by the Board of Directors on November 10, 2014. Consistent with the practice and procedure at the PSE and due to the lack of the feature of re-issuability of the preferred shares of the Company at the time of redemption, the PPREF Shares were delisted by the PSE on March 6, 2015.

#### Common Shares

The price of the common shares of the Company as of February 28, 2017, the last trading day of February 2017, was ₱8.70 per share. The price of the common shares of the Company on December 29, 2016, the last trading day of 2016, was ₱9.95 per share. The price of the common shares of the Company on December 29, 2015, the last trading day of 2015, was ₱6.99 per share.

The high and low prices of the common shares for each quarter of the last two (2) fiscal years and for period ended February 2017 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2017</b>				
For period ended February 28, 2017	10.30	January 05	8.70	February 28
<b>2016</b>				
1 <sup>st</sup> Quarter	10.96	March 23	5.36	January 21
2nd Quarter	11.88	June 01	9.86	April 04
3rd Quarter	11.46	August 10	9.40	September 14
4th Quarter	10.80	October 11	9.10	November 23

2015				
1 <sup>st</sup> Quarter	10.62	February 20	9.04	January 29
2nd Quarter	10.02	May 15	8.45	June 17
3rd Quarter	10.00	July 31	6.86	September 18
4th Quarter	8.36	November 05	6.75	October 06

*Series 2 Preferred Shares issued in 2014 (“Series 2 Shares”)*

On November 3, 2014, Petron issued and listed on the PSE 10 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₱1,000 per share. The preferred shares issue, which reached a total of ₱10 billion, is composed of Series 2A preferred shares amounting to ₱7.12 billion (the “Series 2A Preferred Shares”) and the Series 2B preferred shares amounting to ₱2.88 billion (the “Series 2AB Preferred Shares”). The Series 2A Preferred Shares may be redeemed by the Company starting on the fifth anniversary from the listing date, while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date.

Series 2A Shares

The price of the Series 2A Preferred Shares as of February 24, 2017, the last trading day of the shares during the month, was ₱1,045.00 per share. The price of the Series 2A Preferred Shares on December 29, 2016, the last day of 2016 the shares were traded, was ₱1,045.00. The price of the Series 2A Preferred Shares on December 29, 2015, the last day of 2015 the shares were traded, was ₱1,070.00.

The high and low prices of Series 2A Preferred Shares for the last quarter of 2014 beginning their listing on November 3, 2014, each of the quarters of 2015, and for the period ended February 2016 are indicated below:

The high and low prices of the Series 2A preferred shares for each quarter of the last two (2) fiscal years and for February 2017 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2017</b>				
For period ended February 28, 2017	1,073.00	February 15	1,045.00	January 09 & 17; February 20 & 24
<b>2016</b>				
1 <sup>st</sup> Quarter	1,084.00	February 29 & March 01	1,020.00	January 22
2nd Quarter	1,079.00	June 20, 21, & 22	1,000.00	April 12, 13, 14 & 15
3rd Quarter	1,140.00	September 28	1,040.00	July 21; August 10, 11, 12, 16, 18, 19, 23 & 25
4th Quarter	1,100.00	November 17, 24, & 25	1,029.00	October 13

<b>2015</b>				
1 <sup>st</sup> Quarter	1,085.00	March 26	1,005.00	January 19
2nd Quarter	1,160.00	April 27	1,050.00	May 8
3rd Quarter	1,120.00	July 15	1,040.00	August 27
4th Quarter	1,080.00	October 1	1,050.00	November 11 & 20; December 2, 4, 7, 9, 10, 14 & 15

### Series 2B Preferred Shares

The price of the Series 2B Preferred Shares as of February 28, 2017, the last trading day of the shares during the month, was ₱1,096.00 per share. The price of the Series 2B Preferred Shares on December 15, 2016, the last day of 2016 the shares were traded, was ₱1,160.00. The price of the Series 2B Preferred Shares on December 21, 2015, the last day of 2015 the shares were traded, was ₱1,065.00.

The high and low prices of the Series 2A preferred shares for each quarter of the last two (2) fiscal years and for February 2017 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2017</b>				
For period ended February 28, 2017	1,180.00	January 23 & 26	1,096.00	February 21 & 24
<b>2016</b>				
1 <sup>st</sup> Quarter	1,100.00	February 29; March 01, 07, 08, 09, 10, 16, 17, 18, 21, 22, 23, 28	1,056.00	February 09, 10, 11
2nd Quarter	1,160.00	June 28, 29 & 30	1,030.00	April 04, 05, 06, 07, 08
3rd Quarter	1,239.00	September 29	1,050.00	August 25
4th Quarter	1,229.00	November 17	1,070.00	October 12
<b>2015</b>				
1 <sup>st</sup> Quarter	1,100.00	March 27	1,016.00	January 30
2nd Quarter	1,170.00	March 15	1,070.00	April 16
3rd Quarter	1,149.00	July 1, 13 & 15	1,075.00	August 26
4th Quarter	1,141.00	October 9	1,050.00	October 22

## (2) Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of December 31, 2016 are set out below.

### Common Shares

STOCKHOLDER NAME	Common	TOTAL SHARES	% (
1 SEA REFINERY CORPORATION	4,696,885,564	4,696,885,564	50.099554 %
2 SAN MIGUEL CORPORATION	1,702,870,560	1,702,870,560	18.163750 %
3 PCD NOMINEE CORP. (FILIPINO)	1,324,701,541	1,324,701,541	14.129992 %
4 PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	731,156,097	731,156,097	7.798911 %
5 PCD NOMINEE CORP. (NON-FILIPINO)	468,466,871	468,466,871	4.996924 %
6 ERNESTO CHUA CHIACO &/OR MARGARET SY CHUA CHIACO	6,000,000	6,000,000	0.063999 %
7 SYSMART CORP.	4,000,000	4,000,000	0.042666 %
8 ANSALDO GODINEZ & CO. INC. FAO MARK V. PANGILINAN	4,000,000	4,000,000	0.042666 %
9 MARGARET S. CHUACHIACO	3,900,000	3,900,000	0.041600 %
10 RAUL TOMAS CONCEPCION	3,504,000	3,504,000	0.037376 %
11 GENEVIEVE S. CHUACHIACO	2,735,000	2,735,000	0.029173 %
12 ERNESSON S. CHUACHIACO	2,732,000	2,732,000	0.029141 %
13 Q - TECH ALLIANCE HOLDINGS, INC.	2,648,500	2,648,500	0.028250 %
14 GENEVIEVE S. CHUA CHIACO	2,490,000	2,490,000	0.026560 %
15 BENEDICT CHUA CHIACO	2,365,000	2,365,000	0.025226 %
16 ANTHONY CHUA CHIACO	2,008,000	2,008,000	0.021418 %
17 SHAHRAD RAHMANIFARD	2,000,000	2,000,000	0.021333 %
18 KRISTINE CHUA CHIACO	1,956,000	1,956,000	0.020864 %
19 CHING HAI GO &/OR MARTINA GO	1,500,000	1,500,000	0.016000 %
20 ERNESSON S. CHUA CHIACO	1,450,000	1,450,000	0.015466 %
	8,967,369,133	8,967,369,133	95.650871 %
TOTAL NO. OF SHARES :	9,375,104,497		
TOTAL NO. OF DISTINCT STOCKHOLDERS :	148,219		
TOTAL NO. OF ACCOUNTS :	148,219		



Preferred Shares

STOCKHOLDER NAME	Preferred 2-A	TOTAL SHARES	% OF O/S
1 PCD NOMINEE CORPORATION (FILIPINO)	6,343,900	6,343,900	89.070696 %
2 SAN MIGUEL CORPORATION RETIREMENT PLAN-FIP	400,000	400,000	5.616148 %
3 SAN MIGUEL BREWERY INC. RETIREMENT PLAN	200,000	200,000	2.808074 %
4 SAN MIGUEL CORPORATION RETIREMENT PLAN - STP	60,000	60,000	0.842422 %
5 SAN MIGUEL FOODS INC. RETIREMENT PLAN	50,000	50,000	0.702018 %
6 SAN MIGUEL YAMAMURA PACKAGING CORP. RETIREMENT PLAN	40,470	40,470	0.568214 %
7 PCD NOMINEE CORPORATION (NON-FILIPINO)	13,960	13,960	0.196004 %
8 KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS., INC.	3,200	3,200	0.044929 %
9 LORD ALLAN JAY Q. VELASCO	2,000	2,000	0.028081 %
10 SYLVIA LOPEZ ALEJANDRO	1,000	1,000	0.014040 %
11 BCS REALTY HOLDINGS & DEVELOPMENT CORPORATION	1,000	1,000	0.014040 %
12 ZENaida M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.014040 %
13 SAMUEL L. SANTOS OR MA. PAULINA ISABEL P. SANTOS	750	750	0.010530 %
14 IRMA T. SAN JUAN	500	500	0.007020 %
15 PATRICIO A. LIM OR SUSANA M. GERALDO	500	500	0.007020 %
16 STA. MARIA DELLA STRADA PARISH GARDEN SANCTUARY	420	420	0.005897 %
17 ANA MARGARITA A. MORTEL	320	320	0.004493 %
18 ALFRITO D. MAH OR AGUEDA G. MAH	300	300	0.004212 %
19 AGNES L BANIQUED	300	300	0.004212 %
20 EVELYN A GESMUNDO OR DOMINADOR A. GESMUNDO JR.	300	300	0.004212 %
	7,119,920	7,119,920	99.966303 %
TOTAL NO. OF SHARES :	7,122,320		
TOTAL NO. OF DISTINCT STOCKHOLDERS :	49		
TOTAL NO. OF ACCOUNTS :	49		

RANK	STOCKHOLDER NAME	Preferred 2-B	TOTAL SHARES	% OF O/S
1 PCD NOMINEE CORPORATION (FILIPINO)		2,750,430	2,750,430	95.578035 %
2 KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILS., INC.		45,440	45,440	1.579050 %
3 PCD NOMINEE CORPORATION (NON-FILIPINO)		24,095	24,095	0.837306 %
4 MARCELINO R. TEODORO		12,500	12,500	0.434378 %
5 FIRST LIFE FINANCIAL CO., INC.		7,000	7,000	0.243252 %
6 BEN TIUK SY OR JUDY Y. SY		6,400	6,400	0.222401 %
7 REYNALDO GARCIA ALEJANDRO &/OR SYLVIA L. ALEJANDRO		5,000	5,000	0.173751 %
8 ALEXANDER T. SOLIS &/OR GINA T. SINFUEGO		5,000	5,000	0.173751 %
9 FRANCISCO S. ALEJO &/OR CYNTHIA ALEJO &/OR ANNA MELISSA A. ACOP		3,000	3,000	0.104251 %
10 ANTONIO T. CHUA		2,500	2,500	0.086876 %
11 R. M. TIONGCO HOLDINGS, INC.		2,100	2,100	0.072975 %
12 ENRIQUE DELA LLANA YUSINGCO		2,000	2,000	0.069500 %
13 JUSTINIANO B. PANAMBO, JR.		1,920	1,920	0.066720 %
14 RICHARD C. OLETA OR HELEN G. OLETA		1,700	1,700	0.059075 %
15 FELIX B. CHAVEZ &/OR AIDA T. CHAVEZ OR IRENE T. CHAVEZ		1,500	1,500	0.052125 %
16 DEWEY T. TAN		1,000	1,000	0.034750 %
17 ROMEO V. JACINTO		1,000	1,000	0.034750 %
18 ZENaida M. POSTRADO OR RENATO POSTRADO		1,000	1,000	0.034750 %
19 EVELYN A GESMUNDO OR DOMINADOR A. GESMUNDO JR.		720	720	0.025020 %
20 RONNE T. SY SU OR CHADWICK C. SY SU		700	700	0.024325 %
		2,875,005	2,875,005	99.907043 %
TOTAL NO. OF SHARES :	2,877,680			
TOTAL NO. OF DISTINCT STOCKHOLDERS :	31			
TOTAL NO. OF ACCOUNTS :	31			

### **(3) Dividends**

It is the policy of the Company under the CG Manual that it shall declare dividends when its retained earnings exceed 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board, (b) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent and such consent has not been secured, or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

The Company pays out its dividends on common shares within 30 days after the declaration, to the extent practicable.

On November 3, 2014, the Company issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The dividend on the Series 2A Preferred Shares is at the fixed rate of 6.30% per annum and on the Series 2B Preferred Shares at the fixed rate of 6.8583% per annum, each as calculated based on the offer price of ₱1,000 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 2 Shares in February 2015 since their listing in November 2014.

#### *Dividend Declarations and Payments*

#### **2016**

On March 15, 2016, the Board of Directors approved a cash dividend of ₱0.10 per share to common shareholders as of the March 31, 2016 record date with a pay-out date of April 14, 2016.

On the same date, the Board of Directors also approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2016 with record dates of April 15, 2016 and July 15, 2016, respectively, and pay-out dates of May 3, 2016 and August 3, 2016, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2016 also with record dates of April 15, 2016 and July 15, 2016, respectively, and pay-out dates of May 3, 2016 and August 3, 2016, respectively.

On August 8, 2016, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2016 and the first quarter of 2017 with record dates of October 14, 2016 and January 13, 2017, respectively, and pay-out dates of November 3, 2016 and February 3, 2017, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2016 and the first quarter of 2017 also with record dates of October 14, 2016 and January 13, 2017, respectively, and pay-out dates of November 3, 2016 and February 3, 2017, respectively.

## 2015

On March 17, 2015, the Board of Directors approved a cash dividend of ₱0.05 per share to common shareholders as of the April 1, 2015 record date with a pay-out date of April 16, 2015.

On the same date, the Board of Directors also approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2015 with record dates of April 17, 2015 and July 20, 2015, respectively, and pay-out dates of May 4, 2015 and August 3, 2015, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2015 with record dates of April 17, 2015 and July 20, 2015, respectively, and pay-out dates of May 4, 2015 and August 3, 2015, respectively.

On August 10, 2015, the Board of Directors approved cash dividends of (i) ₱15.75 per share to the shareholders of the Series 2A Preferred Shares for the fourth quarter of 2015 and the first quarter of 2016 with record dates of October 16, 2015 and January 18, 2016, respectively, and pay-out dates of November 3, 2015 and February 3, 2016, respectively, and (ii) ₱17.14575 per share to the shareholders of the Series 2B Preferred Shares for the fourth quarter of 2015 and the first quarter of 2016 with record dates of October 16, 2015 and January 18, 2016, respectively, and pay-out dates of November 3, 2015 and February 3, 2016, respectively,

### Distributions

Under the terms and conditions of the undated subordinated capital securities issued by the Company on February 11 and March 6, 2013 (collectively, the “Capital Securities”), more particularly described below in “*Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction - US\$750 Million Undated Subordinated Capital Securities*,” the Company cannot declare dividends on any Junior Securities (as defined thereunder), which include the common shares of the Company, or (except on a *pro rata* basis) on any Parity Securities (as defined thereunder), which include the outstanding preferred shares of the Company, in case the payment of all distributions scheduled to be made on the Capital Securities is not made in full by reason of the Company deferring such distributions in accordance with the terms of the Capital Securities.

#### **(4) Recent Sales of Unregistered or Exempt Including Recent Issuances of Securities Constituting an Exempt Transaction**

Under the Securities and Regulation Code (the “Code”) and the Amended Implementing Rules and Regulations of the Securities Regulation Code (the “Amended SRC Rules”), securities are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The securities discussed below were offered and/or sold to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the offer and sale of the subject securities qualified as exempt transactions pursuant to Sections 10.1 (k) and 10.1(l) of the Code and Rule 10.1 of the Amended SRC Rules. A confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualified as an exempt transaction under the Code was not required to be, and had not been, obtained. In compliance with the Amended SRC Rules, notices of exemption were filed after the issuance of the securities qualifying as exempt transactions.

The securities discussed below were not registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

1. ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars

- a. On November 10, 2010, the Company issued the ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars.
- b. The arrangers were Credit Suisse, Deutsche Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. The notes were sold to various investors.
- c. The offer price was at 100%.
- d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, the sale of such notes was considered an exempt transaction and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. But, in compliance with the requirements of the Amended SRC Rules, a notice of exemption for the transaction was filed on November 22, 2010. The subject notes were listed on the Singapore Exchange on November 11, 2010.

2. Fixed Rate Corporate Notes

- a. On October 25, 2011, the Company issued Fixed Rate Corporate Notes totaling ₱3.6 billion, broken down into the following series:
  - i. Series A Notes amounting to ₱0.69 billion and having a maturity of seven (7) years from the Issue Date; and
  - ii. Series B Notes amounting to ₱2.91 billion and having a maturity of 10 years from the Issue Date
- b. The arranger was ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.
- c. The offer price was at 100%.
- d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, the issuance of such notes was an exempt transaction and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

3. US\$750 Million Undated Subordinated Capital Securities

- a. On February 6, 2013, the Company issued US\$500 million undated subordinated capital securities (the "February 6 Issuance"). On March 11, 2013, the Company further issued US\$250 million undated subordinated capital securities, which were consolidated and formed a single series with, the February 6 Issuance (the "March 11 Issuance").
- b. The joint lead managers were Deutsche Bank AG, Singapore Branch, Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited, and UBS AG, Hong Kong Branch.

- c. The offer price for the February 6 Issuance was at 100% and for the March 11 Issuance was at 104.25% plus an amount corresponding to accrued distributions on the capital securities from, and including, February 6, 2013 to, but excluding, March 11, 2013.
- d. As the capital securities described herein were offered to qualified buyers in the Philippines, the issuances of such securities were considered exempt transactions and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. In compliance with the requirements of the Amended SRC Rules, notices of exemption for the transactions were filed on February 12, 2013 for the February 6 Issuance and on March 19, 2013 for the March 11 Issuance. The capital securities were listed with the Stock Exchange of Hong Kong Limited on February 7, 2013 in relation to the February 6 Issuance and on March 12, 2013 in connection with the March 11 Issuance.

## **(B) Description of Petron's Shares**

The Company's capital stock consists of common shares and preferred shares, all with a par value of ₱1.00 per share.

As of the date of this Annual Report, the outstanding capital stock of the Company is comprised of 9,375,104,497 common shares, 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The 100 million PPREF Shares issued by the Company in 2010 were redeemed on March 5, 2015 pursuant to the approval by the Board of Directors on November 7, 2014 and delisted by the PSE on March 6, 2015 consistent with the practice of the PSE in relation to redeemed shares that are not re-issuable at the time of redemption under the issuing company's articles of incorporation.

The Series 2 Preferred Shares, with an aggregate issue value of ₱10 billion, were offered during the period October 20-24, 2014 pursuant to the order of registration and the permit to sell issued by the SEC on October 17, 2014. The Series 2 Preferred Shares were issued and listed on the PSE on November 3, 2014.

Each common share is entitled to one vote.

Preferred shareholders have no voting rights except under instances provided under the Corporation Code of the Philippines, including, but not limited to, the following cases: (i) amendment of the Company's Articles or the Company's By-laws, (ii) the extension or shortening of Petron's corporate term, (iii) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of Petron, (iv) increasing or decreasing capital stock, or (v) a merger or consolidation involving Petron.

## **(C) Stock Ownership Plan**

Petron currently does not have a stock ownership plan or program. In 1994, when Petron's initial public offering was undertaken, a special secondary sale of Petron's shares was offered to its employees. The entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's executive officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this stock ownership plan. Preparatory to the listing of the Company's preferred shares, availment of said shares was offered to employees from February 15 to 19, 2010.

## **(D) Public Ownership**

Based on the report provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 23.84% of the outstanding common shares of the Company was owned by the public as of December 31, 2016 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annex A is the public ownership report of the Company as of December 31, 2016.

*[Rest of page intentionally left blank;  
“Part III - Management’s Discussion and Analysis of Financial Position  
and Financial Performance” follows on next page]*

## PART III - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

### Results of Operations

#### 2016 vs 2015

Petron Corporation sustained strong performance in 2016 with a **consolidated net income of ₱ 10.82 billion**, 73% or ₱ 4.55 billion higher than previous year's ₱ 6.27 billion earnings. The company's improved results was driven by the growth in sales volume, operational efficiency coupled with increased production run resulting in better yields, as well as effective risk management. 2016 also marked the start of RMP2's commercial operations which resulted in the production of higher valued products and the benefit of processing cheaper crudes. However, thinner refining cracks partly toned down the company's margin.

**Consolidated Sales volume** increased by 6% to a record high of **104.3 million barrels (MMB)** from 98.0 MMB in 2015 with the 6% and 7% upsurge from both the Petron Philippine (PP) and Malaysian (PM) operations, respectively. The growth was attributable from aggressive service station network expansion, various marketing initiatives and greater participation in key industries such as power generation and aviation. Both markets saw solid growths across key segments such as Reseller, Industrial, LPG and Lubricants. Except for Fuel oil and Naphtha, all products registered volume improvements lead by gasoline and diesel sales.

**Net sales** declined by 5% or ₱ 16.34 billion to **₱ 343.84 billion** due to lower average selling prices. The reference market prices of finished products in the region weakened along with the relatively lower crude oil prices in 2016. The benchmark Dubai crude averaged US\$41.27/barrel in 2016, 19% lower than full year 2015 average of US\$50.91/barrel. Meanwhile, the drop in prices was tempered by the ₱ 2.00 average depreciation of the peso vis a vis the US dollar. The effect of lower selling prices was partially offset by the additional revenue from higher sales volume.

**Cost of Goods Sold (CGS)** dipped more by 7% to **₱ 306.13 billion** from previous year's ₱ 328.73 billion prompted by lower cost of crude and imported finished products partially countered by the cost of incremental volume sold. The effect of lower product cracks in 2016 was negated by the net inventory gains realized during 2016, a turnaround from the net inventory loss reported in the previous year.

**Selling and Administrative Expenses (OPEX)** of **₱ 13.92 billion** increased by 5% or ₱ 608 million traced to higher service stations' related expenses, warehousing and terminalling fees and accrual of retirement benefits.

**Net Financing Costs and Other Charges** went up to **₱ 9.42 billion** from ₱ 8.21 billion in 2015 largely due to the absence of capitalized interest from RMP2 project financing. The increase in interest expense was tempered by lower marked-to-market (MTM) losses on outstanding commodity hedge positions, reduced swap costs on foreign currency hedges and lower bank charges.

Despite the increase in income before income tax, **Income tax expense** dropped by 3% to **₱ 3.56 billion** from previous year's ₱ 3.66 billion upon the availment of the income tax holiday incentive of RMP2.

## 2015 vs 2014

Despite the continued decline in global oil prices, Petron Corporation posted a consolidated net income of **₱ 6.27 billion** in 2015, more than double the previous year's **₱ 3.01 billion** mainly due to surge in sales volumes, improved margins and effective risk management.

**Consolidated Sales volume** surged by 13% to **98.0 million barrels (MMB)** from previous year's 86.5 MMB. Bulk of the growth came from the Philippine operations where total sales reached 62.0 MMB, 20% ahead of last year. Sales to domestic customers grew by 12%, mainly on account of the 11% growth in the Retail Trade, 16% in the LPG business, and substantial increase in Supply sales. The surge in Exports market also contributed to the growth. On a per product basis, gasoline and diesel sales exhibited the most significant improvement.

**Net sales** plunged by 25% or **₱ 122.36 billion** to **₱ 360.18 billion** prompted by the drop in selling prices as benchmark regional market prices of finished products fell along with the slump in global crude oil prices. During the year, reference crude Dubai averaged US\$50.91/bbl, almost half of US\$96.61/bbl in 2014. The decline in revenues from the lower selling prices was partially tempered by the increase in sales volume.

**Cost of Goods Sold (CGS)** fell more by 29% to **₱ 328.73 billion** from last year's **₱ 463.40 billion**, also attributed to the cheaper cost of crude and imported products. Gross margins improved due to lower inventory losses and strong product cracks, especially for gasoline.

Part of the CGS was **refinery expenses and fuel** of PP amounting to **₱ 12.53 billion**. This was 6% or **₱ 858 million** lower than previous year's **₱ 13.39 billion** due to cheaper refinery fuel amid higher production run.

Meanwhile, **Selling and Administrative Expenses (OPEX)** of **₱ 13.31 billion** exceeded the **₱ 11.53 billion** incurred in 2014 due to the accrual of retirement expense, depreciation and real property taxes of depots and new service stations, 3<sup>rd</sup> party terminalling fees with the move-out from Pandacan, increased promotions/advertising activities, higher LPG cylinder purchases as well as increased CSR projects.

**Net Financing Costs and Other Charges** significantly increased to **₱ 8.21 billion** from **₱ 3.79 billion** a year ago mainly due to marked-to-market (MTM) losses on outstanding commodity hedge positions during the year versus MTM gains in 2014, coupled with the higher cost of foreign currency swap hedges.

**Income tax expense** grew four-fold to **₱ 3.66 billion** as against **₱ 804 million** in the previous year resulting from higher taxable income in 2015.

## 2014 vs 2013

Amid the collapse of crude and finished product prices in the second half of 2014, Petron Corporation posted a better-than-expected **consolidated net income** of **₱ 3.01 billion**, down by 41% or **₱ 2.08 billion** from last year's **₱ 5.09 billion**. Higher sales volume, the completion of strategic projects, and pro-active risk-management cushioned the impact of higher priced inventory being sold at lower prices in the second half of the year. The price of benchmark Dubai crude fell by 44% from an average of US\$108 per barrel in June to an average of only US\$60 per barrel in December. This extraordinary development had a negative effect on oil companies around the world.



Combined sales from both Philippine and Malaysian operations increased by 6% to 86.5 million barrels in 2014 versus 81.7 million the previous year. As a result, **Revenues** grew by 4% from ₱ 463.64 billion to **₱ 482.54 billion**. In the Philippine market, sales volumes surged by nearly 9% to 51.5 million barrels as the company made headway in major market segments. Backed by the most extensive network in the country, retail volumes rose by 6%. LPG volumes likewise grew by 5% supported by higher retail and industrial sales.

Accordingly, **Cost of Goods Sold (CGS)** climbed to **₱ 463.40 billion** from last year's ₱ 440.74 billion on account of the 4.8 MMB growth in sales volume tempered by lower cost per liter. The reduction in cost was driven by the cheaper cost of crude and imported products partly offset by the depreciation of the Philippine peso relative to the US dollar from an average of ₱ 42.46 in 2013 to ₱ 44.40 in 2014.

For the Philippine operations, **Refinery Expenses including Refinery Fuel**, that went into CGS, amounted to **₱ 13.39 billion** exceeding prior year's ₱ 11.34 billion by 18% or ₱ 2.05 billion mainly due to increased fuel consumption with the higher production run.

**Selling & Administrative Expenses (OPEX)** escalated by 3% from ₱ 11.53 billion to **₱ 11.22 billion** due to increases in rent and insurance expense and higher depreciation due to new stations in the Philippines and Malaysia and rebranded service stations in Malaysia.

**Net Financing Costs & Other Income** decreased by ₱ 0.95 billion or 20% to **₱ 3.79 billion** traced primarily to unrealized commodity hedging gain versus loss last year; partly offset by the lower interest income with the partial collection of advances to a related party.

Considering the foregoing, **Income tax expense** was reduced to **₱ 0.80 billion** vis-à-vis last year's ₱ 1.85 billion due to the significant decline in income before income tax.

## Financial Position

### 2016 vs 2015

As of end 2016, **Petron's consolidated assets** grew by 8% or ₱ 24.63 billion to **₱ 318.89 billion** from previous year's ₱ 294.27 billion due to additional fixed assets acquired during the year and higher inventories.

**Cash and cash equivalents** was reduced by 8% (₱ 1.55 billion) to close at **₱ 17.33 billion** as funds generated from operations were used to pay both short and long-term loans, interest, dividends and distributions and capital investments.

**Financial assets at fair value through profit or loss** dropped from ₱ 509 million to **₱ 221 million**, or by 57% attributed to lower marked-to-market (MTM) gains on outstanding commodity hedges.

The value of **Inventories - net**, grew to **₱ 44.15 billion** from end-2015's ₱ 30.82 billion due to higher volume and cost of crude oil and finished products by end 2016.

**Other current assets** decreased by 6% or ₱ 2.03 billion to **₱ 32.50 billion**, with the utilization of the Parent Company's value-added tax credit certificates in payment of taxes.

**Available-for-sale financial assets** (current and non-current) of **₱ 479 million** ended lower by 23% than previous year's ₱ 621 million traced mainly to the maturity of investment in corporate bonds held by an insurance subsidiary.

**Property, plant and equipment - net** stood at **₱ 176.60 billion**, 9% or **₱ 15.00 billion** more than the **₱ 161.60 billion** level as of end-2015 brought about by the acquisition of the 140-megawatt solid fuel-fired power plant.

The sale of a parcel of land by a real estate subsidiary resulted in the decline in **Investment property - net** from **₱ 112 million** to **₱ 91 million** as of end-2016.

**Deferred tax assets** decreased by 8% or **₱ 17 million** to **₱ 194 million** essentially on account of Petron Malaysia's (PM) lower deductible temporary differences.

**Other noncurrent assets - net** fell to **₱ 6.42 billion** from **₱ 6.73 billion** in 2015 primarily due to the collection of advances to Petron Corporation Employee Retirement Plan and amortization of catalysts, prepayments and intangibles, tempered by the recognition of the power plant's deferred input tax.

**Short-term loans** were lower by 9% or **₱ 9.11 billion** from **₱ 99.48 billion** to **₱ 90.37 billion** with the net payment of loans during the year.

**Liabilities for crude oil and petroleum products** increased to **₱ 29.97 billion** from **₱ 16.27 billion**, or by 84% on account of higher volume and cost of crude oil and finished products as of end 2016.

**Trade and other payables** significantly increased by **₱ 6.81 billion** to **₱ 16.16 billion** due to outstanding payables to contractors and suppliers.

**Derivative liabilities** moved up to **₱ 778 million** or by **₱ 175 million** chiefly due to the increase in MTM commodity hedging losses partly offset by the decline in MTM losses on currency hedges.

**Income tax payable** ballooned from **₱ 183 million** to **₱ 626 million** due to PM's higher taxes payable on reported taxable earnings in 2016.

**Long-term debt - net** (including current portion) rose by 10% to **₱ 79.85 billion** with the issuance of the **₱ 20 billion** retail bonds in October 2016 partly offset by the repayment of existing loans.

**Retirement benefits liability** dipped by 40% (**₱ 2.19 billion**) to **₱ 3.32 billion** mainly caused by the recognition of re-measurement gains on plan assets.

**Deferred tax liabilities** surged by 23% from **₱ 4.64 billion** to **₱ 5.73 billion** prompted by the timing differences generated by the accelerated depreciation of the Parent company's RMP2 and the re-measurement gains on retirement plan assets as well as utilization of the minimum corporate income tax paid in previous years.

**Asset retirement obligation** amounted to **₱ 2.32 billion** and registered a 28% or **₱ 515 million** hike from end-December 2015 level on account of the additional provision for the refinery facilities.

**Other noncurrent liabilities** of **₱ 959 million** climbed by 6% driven by higher LPG cylinder deposits.

The negative balance of **Equity reserves** declined from **₱ 8.77 billion** to **₱ 7.20 billion** triggered by the re-measurement gains on plan assets.

**Non-controlling interests (NCI)** increased from **₱ 471 million** to **₱ 4.33 billion** essentially due to the reversal of the remaining NCI in foreign subsidiaries to the Parent Company.

## 2015 vs 2014

**Petron's consolidated resources** as of December 31, 2015 stood at **₱ 294.27 billion**, 25% or **₱ 97.06 billion** lower than end-December 2014 level of **₱ 391.32 billion** primarily due to the reduction in cash and cash equivalents, inventories and trade and other receivables.

**Cash and cash equivalents** decreased by 79% (**₱ 71.72 billion**) to **₱ 18.88 billion** level traced to the net settlement of loans, payments to vendors, redemption of preferred shares issued by the parent company and a subsidiary, disbursement for interest expense, distributions and dividends.

As the value of outstanding commodity hedges declined amid the slump in global crude oil prices, **financial assets at fair value through profit or loss** also went down by 69% from **₱ 1.63 billion** to **₱ 509 million**.

**Trade and other receivables - net** fell to **₱ 30.75 billion** or by 36% against end-December 2014 level of **₱ 48.34 billion** due mainly to the collection of value-added tax (VAT) claims.

**Inventories - net** aggregated **₱ 30.82 billion**, 42% or **₱ 22.36 billion** less than the **₱ 53.18 billion** at the end of 2014 attributed to lower volume and price of crude and finished products.

**Other current assets** rose from **₱ 24.85 billion** to **₱ 34.53 billion** on account of the collected VAT credit certificates of Petron Philippines (PP), partly offset by the lower input tax on imported crude and finished products due to cheaper prices.

**Available-for-sale financial assets** (current and non-current) amounted to **₱ 621 million**, 30% lower than the **₱ 881 million** balance in December 2014 primarily brought about by the maturity of government securities.

**Property, plant and equipment - net** went up by 5% or **₱ 7.95 billion** to reach **₱ 161.60 billion** essentially due to the additional spending on the RMP-2 Project.

**Investment in shares of stock of an associate** increased to **₱ 1.81 billion** or by 56% (**₱ 652 million**) with the Company's additional investment and share in income of its lone associate - Manila North Harbour Port, Inc. (MNHPI).

The unutilized Net Operating Loss Carry-Over (NOLCO) of a subsidiary was reversed during the period which largely contributed to the 13% or **₱ 31 million** drop in **deferred tax assets** from **₱ 242 million** to **₱ 211 million**.

The weakening of the Malaysian Ringgit (MYR) against the Philippine Peso resulted in the decrease in **Goodwill** from **₱ 8.92 billion** to **₱ 7.69 billion**.

**Other noncurrent assets - net** declined to **₱ 6.73 billion**, 13% or **₱ 1.03 billion** below the December 2014 level of **₱ 7.76 billion** due to the usage of catalysts and amortization of prepayments.

**Short-term loans and liabilities for crude oil and petroleum products** ended lower by 26% or **₱ 41.67 billion** to close at **₱ 115.75 billion** due to settlement of loans coupled with the drop in volume and prices of crude and finished product importations.

**Trade and other payables** were significantly reduced by 76% (**₱ 29.79 billion**) to **₱ 9.35 billion** resulting from payments made to various contractors and suppliers.

**Derivative liabilities** climbed to **₱ 603 million** from the **₱ 98 million** level in December 2014 driven by marked-to-market losses on both outstanding commodity hedges and foreign currency forwards.

**Income tax payable** more than doubled from ₱ 73 million to **₱ 183 million** due mainly to PM's higher income during the period.

**Retirement benefits liability** increased to **₱ 5.51 billion** from ₱ 2.27 billion as the value of plan assets incurred temporary marked-to-market re-measurement losses.

**Deferred tax liabilities** rose to **₱ 4.64 billion** from ₱ 3.47 billion largely from recognizing the timing differences of capitalized RMP-2 pre-commissioning expenses.

**Asset retirement obligation** moved up by 9% to **₱ 1.81 billion** from ₱ 1.66 billion contributed by provisions for additional RMP2 facilities.

**Other noncurrent liabilities** were down by ₱ 467 million or 34% to end at **₱ 906 million** mainly due to the release of a customer's cash bond as settlement to its outstanding trade obligations to the Parent Company.

Movement in the balance of **Equity reserves** can be explained by the following: (a) **Reserve for retirement plan's** negative balance increased from ₱ 1.02 billion to ₱ 3.20 billion due to the MTM re-measurement losses on plan assets. (b) The negative balance of **Other reserves** soared to **₱ 5.56 billion** from end-2014's level of ₱ 2.15 billion due to the impact of foreign exchange translation loss on investment in foreign subsidiaries.

During the year, the Parent Company redeemed its preferred shares issued in 2010 which resulted in the recognition of **Treasury Stock of ₱ 10.00 billion**.

The redemption of preferred shares issued by a subsidiary resulted to the ₱ 15.89 billion drop in **Non-controlling interests** from end-2014's level of ₱ 16.36 billion to ₱ 471 million.

### **2014 vs 2013**

The **consolidated assets** of Petron by the end of 2014 amounted to **₱ 391.32 billion, 9% or ₱ 33.87 billion higher** than end-December 2013 level of ₱ 357.46 billion mainly due to the increases in cash and cash equivalents and property, plant and equipment partly offset by the reduction in other non-current assets and trade and other receivables.

**Cash and cash equivalents** increased by 80% or ₱ 40.2 billion to **₱ 90.6 billion** sourced from collection of receivables and proceeds from issuance of preferred shares.

**Financial assets at fair value through profit or loss** surged by ₱ 826 million to **₱ 1.63 billion**, traced to higher marked-to-market gain on outstanding commodity hedges.

**Trade and other receivables-net** stood lower at **₱ 48.34 billion** (by ₱ 14.50 billion or 23%), brought about by the collection of receivables from the government of Malaysia and various airline accounts.

**Other current assets** of **₱ 24.85 billion** registered a 40% hike from December 2013 level emanated from PP's additional excess input VAT on imported raw materials and advance payment of excise taxes.

**Property, plant and equipment - net** reached **₱ 153.65 billion** in December 2014, ₱ 12.0 billion higher than December 2013's ₱ 141.65 billion mark. The 8% increase was attributed to PP's RMP-2 project and network expansion program as well as the refurbishment and rebranding of service stations in Malaysia.

**Investment in shares of stock of an associate** surged to **₱ 1.16 billion** triggered by the additional investment to Manila North Harbour Port, Inc., and the corresponding share in its net income during the year.

**Deferred tax assets** escalated by 49% (₱ 80 million) and settled at **₱ 242 million** on account of temporary differences of PM.

**Goodwill** decreased by 5% (₱ 465 million) to **₱ 8.92 billion** prompted by the depreciation of the ringgit vis-à-vis the US dollar.

**Other noncurrent assets-net** significantly declined by 63% from **₱ 20.85 billion** to **₱ 7.76 billion** driven by the partial collection of advances to Petron Corporation Employees Retirement Plan as well as the remeasurement in pension asset value.

**Short-term loans and liabilities for crude oil and petroleum products** amounted to **₱ 157.42 billion** and posted a 13% increase from **₱ 138.78 billion** in December 2013 as a result of the additional loan availed by PP, partly reduced by the decline in prices of crude and finished products importations of both PP and PM.

**Trade and other payables of ₱ 39.14 billion** increased by 34% from the **₱ 29.29 billion** level as at end of 2013 with the transfer of the maturing retention payable to current liabilities and increased payables to various contractors.

**Derivative liabilities of ₱ 98 million** went lower from the **₱ 152 million** level as at end of 2013 influenced mainly by the lower loss on outstanding transactions with embedded derivatives.

**Long-term debt inclusive of current portion** increased by 9% (₱ 5.94 billion) principally due to the newly availed loan of PM and PP to refinance maturing and other long-term obligations.

**Income taxes payable of ₱ 73 million** dipped by 62% from **₱ 194 million** in December 2013 traced from lower taxes payable of Petron Malaysia.

**Retirement benefits liability** substantially increased to **₱ 2.27 billion** as a result of the remeasurement reversal of PP's retirement plan asset into liability.

**Deferred tax liabilities-net** dropped by **₱ 1.13 billion** (25%) to **₱ 3.47 billion** due largely from the reversal of net pension asset into liability in addition to the provision from the resulting net operating loss and payment of minimum corporate income tax.

**Asset Retirement Obligation (ARO)** moved-up to **₱ 1.66 billion** from **₱ 1.0 billion** in December 2013 due to the recognition of ARO of the Refinery.

**Other noncurrent liabilities** declined by 70% to **₱ 1.37 billion** with the reclassification of maturing retention payable to current liabilities partly offset by the increases in dealers' cash bond and cylinder deposit.

**Additional paid-in capital** of **₱ 19.65 billion** more than doubled the **₱ 9.76 billion** in previous year with the issuance of Series 2 preferred shares in November 2014. Net proceeds will be used in March 2015 to redeem the outstanding preferred shares issued in 2010.

Changes in **Equity reserves** can be attributed to the following: (a) **Reserve for retirement plan** resulted in negative value of **₱ 1.02 billion** due to the recognition of actuarial losses in the remeasurement of PP's plan asset. (b) **The negative ₱ 2.15 billion Other reserves** as of end-December 2014 almost tripled the negative ₱ 721 million level as of end December 2013 brought about by the increase in translation loss on equity in foreign subsidiaries.

**Non-controlling interests** ended lower by ₱ 1.56 billion from ₱ 17.92 billion to **₱ 16.36 billion** prompted by PGL and PMRMB's payment of dividends to preferred and common stockholders, respectively.

## Cash Flows

### 2016 vs 2015

The Company's operation internally generated cash of ₱ 37.06 billion was partly used to pay for interests and taxes, netting an inflow of ₱ 29.27 billion. The excess cash from operations were used to fund the acquisition of additional property, plant and equipment, and for settling short-term and long-term loans, dividends and distributions. Net decrease in cash and cash equivalents during 2016 amounted to ₱ 1.55 billion.

In Million Pesos	December 31, 2016	December 31, 2015	Change
Operating inflows	29,269	8,468	20,801
Investing outflows	(19,165)	(14,592)	(4,573)
Financing outflows	(12,025)	(66,343)	(54,318)

### 2015 vs 2014

The internally generated cash from operations amounting to ₱ 16.24 billion was more than sufficient to cover working capital requirements, interests and taxes. On the other hand, investing and financing activities used up cash of ₱ 14.59 billion and ₱ 66.34 billion, respectively, reducing the cash balance to ₱ 18.88 billion as of end-December 2015. Capital expenditures on RMP-2 project accounted mostly for the net outflow in investing while financing activities included payment of loans, dividends and distributions and redemption of preferred shares.

### 2014 vs 2013

In 2014, funds generated from operations were not enough to support the company's working capital requirements and interest payments. Meanwhile, net investing outflows were largely due to capital expenditures at the Refinery and in Malaysia tempered by the partial collection of advances to PCERP. On the other hand, financing activities provided cash inflows of ₱ 45.17 billion sourced from proceeds from net availment of loans and issuance of preferred shares partly reduced by the payment of dividends and distributions.

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

<b>Ratio</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Current Ratio	0.8	0.9	1.1
Debt to Equity Ratio	2.6	2.5	2.4
Return on Equity (%)	12.6	6.4	2.7
Interest Rate Coverage Ratio	4.3	4.0	2.8
Assets to Equity Ratio	3.6	3.5	3.4

**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.

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** - 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** - EBITDA 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.

## **Business Environment**

Gross domestic product expanded year-on-year by 6.8% in 2016, faster than the 5.9% growth rate in 2015. Growth was driven by strong household consumption and growth in capital investments.

The peso weakened by 4.33% to average ₱47.47/US\$ in 2016 from ₱45.50/US\$ in 2015. The depreciation of the peso was due to prospects of a US Fed rate hike, concerns of a weak Chinese economy, and net selling by foreign investors in the local stock market.

Inflation averaged 1.8% in 2016, slightly higher than 1.4% in 2015. The higher inflation is due to the Peso depreciation, rebound in fuel prices, and supply constraint on some food items.

## **Oil Market**

Domestic oil demand in 2016 remained robust with still low retail oil prices encouraging travel, strong vehicle sales at almost 25% growth in 2016, favorable business environment contributing to the growth of industrial sectors which are heavy oil users, such as manufacturing and construction.

Crude price benchmark, Dubai, averaged \$41.4/bbl, lower than 2015 average of \$50.8/bbl due to a supply overhang from elevated OPEC production and high inventory levels.

**Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.**

## **Tax Credit Certificates-Related Matters**

In 1998, the BIR issued a deficiency excise tax assessment against the Company relating to the Company's use of P659 million worth of TCC to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The Company contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that, as a fuel supplier of BOI-registered companies, the Company was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the CA promulgated a decision in favor of the Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by the Company as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in a resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Company filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2016.

## **Pandacan Terminal Operations**

In November 2001, the City of Manila enacted Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the Company, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society ("SJS") filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Company filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.



The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (“Ordinance 8119”), which applied to the entire City of Manila. Ordinance 8119 allowed the Company (and other non-conforming establishments) a seven (7)-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the “March 7 Decision”) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (the “Water Code”). On February 13, 2008, the Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (“Ordinance 8187”), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. The parties have filed their respective briefs. The appeal remained pending as of December 31, 2016.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinder of its implementation. The Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016. On November 25, 2014, the Supreme Court issued a Decision (“November 25 Decision”) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Company, the Supreme Court denied Shell’s motion with finality, clarified that relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, the Company filed its submission in compliance with the November 25 Decision.

### Guimaras Oil Spill Incident

On August 11, 2006, MT Solar I, a third party vessel contracted by the 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 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 Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the DOTC and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292 million. The cases were still pending as of December 31, 2016.

#### **Any significant elements of income or loss (from continuing operations)**

There were no significant elements of income or loss from continuing operations.

#### **Seasonal aspects that has material effect on the financial statement**

There were no seasonal items that have material effect on the financial statement.

#### **All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.**

There were no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

#### **Financial Statements**

The 2016 audited financial statements of Petron and its subsidiaries and the Statement of Management Responsibility are attached hereto as Annex “C”.

## Audit and Audit-Related Fees

For the annual review of the financial statements in 2015, the Company paid KPMG, its external auditor, ₱6.82 million. For the annual review of the financial statements, consultancy services and other related services, the Company paid KPMG, its external auditor, as well as Uy Singson Abella & Co., Isla Lipana & Co., SGV & Co., and AMC & Associates, the aggregate amount of ₱16.63 million in 2015. The fees are more particularly set out below:

	2016 (in Pesos)	2015 (in Pesos)
Audit fees for professional services - Annual Financial Statement <sup>1</sup>	6,819,400	6,691,400.00
Professional fees for due diligence and study on various internal projects	-	1,794,405.99
Professional fees for tax consulting services	-	8,190,608.30
	6,819,400	16,626,414.29

<sup>1</sup> Audit fees are tax-exempt and exclusive of out-of-pocket expenses

In 2010, after the three (3)-year contract with its previous external auditor, the Company appointed KPMG, the external auditor of SMC. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

From 2010 to 2016, KPMG was found to have satisfactorily performed its duties as external auditor of the Company and was endorsed by the Audit and Risk Management Committee for the approval by the Board of Directors. The Board of Directors, finding the recommendation to be in order, endorsed the appointment of KPMG as external auditor for the approval of the stockholders during the annual stockholders' meeting for years 2011, 2012, 2013, 2014, 2015 and 2016. KPMG was appointed as external auditor by the stockholders at each such annual stockholders' meeting.

Mr. Darwin P. Virocel was first assigned by KPMG to lead the audit of the Company for its 2015 financial statements.

The Audit and Risk Management Committee further endorsed the re-appointment of KPMG as external auditor for 2017. At its meeting held on March 14, 2017, the Board of Directors, finding the recommendation to be in order, endorsed the re-appointment of KPMG as external auditor of the Company for 2017 for the approval of the stockholders at the Annual Stockholders' Meeting. With the new engagement partner of KPMG assigned to the Company only beginning 2016, the Company is not subject to the rule on rotation for the signing partner every five (5) years under the Amended SRC Rules in respect of its engagement of KPMG.

Set out below is the report of the Audit and Risk Management Committee for the year 2016.

**AUDIT AND RISK MANAGEMENT COMMITTEE REPORT**

The Board of Directors  
Petron Corporation

The Audit and Risk Management Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

In the performance of our responsibilities, we report that in 2016:

- o We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- o We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2014;
- o We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- o We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- o We reviewed with the Internal Audit Head the annual internal audit plan, approved the same, and satisfied ourselves on the independence of the internal audit function;
- o We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period; and
- o We approved Petron Corporation's Internal Audit Rating System which is used to provide an overall assessment on the quality of the design and operation of internal controls prevailing in an audit client.


The Audit and Risk Management Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2016.



**Reynaldo G. David**  
Chairperson  
Independent Director



**Estelito P. Mendoza**  
Director



**Artemio V. Panganiban**  
Independent Director



**Aurora T. Calderon**  
Director



**Lubin B. Nepomuceno**  
Director

### **Material Commitments for Capital Expenditure**

In 2016, the Company allocated ₱22.1 billion in capital projects, including ₱18 billion for the re-acquisition of the Refinery Solid Fuel Fired Power Plant, ₱1.2 billion for service station-related expenditures and ₱2.9 billion for other commercial, maintenance and miscellaneous projects.

In 2015, the Company spent ₱15.2 billion in capital investments, ₱13.4 billion of which was spent for the expansion of the refinery of the Company in Bataan (the “Petron Bataan Refinery”). In addition, service station-related expenditures totaled ₱0.9 billion while another ₱0.9 billion was used for other commercial, maintenance and miscellaneous projects.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in and disagreements with accountants on accounting and financial disclosures.

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“Part IV - Management and Certain Security Holders” follows on next page]*

## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### (A) Directors, Executive Officers and Board Committees of the Registrant

#### (i) Director and Executive Officers

Listed below are the directors and officers of the Company with their respective ages, citizenships, and current and past positions held and business experience for at least the past five (5) years until the date of this Annual Report.

#### Directors

The following are the incumbent directors of the Company:

Name	Period Served
Eduardo M. Cojuangco, Jr.	January 8, 2009 - present
Ramon S. Ang	January 8, 2009 - present
Lubin B. Nepomuceno	February 19, 2013 - present
Eric O. Recto	July 31, 2008 - present
Estelito P. Mendoza	January 8, 2009 - present <sup>1</sup>
Jose P. de Jesus	May 20, 2014 - present
Ron W. Haddock	December 2, 2008 - present
Aurora T. Calderon	August 13, 2010 - present
Mirzan Mahathir	August 13, 2010 - present
Romela M. Bengzon	August 13, 2010 - present
Virgilio S. Jacinto	August 13, 2010 - present
Nelly Favis Villafuerte	December 1, 2011 - present
Reynaldo G. David (Independent Director)	May 12, 2009 - present
Artemio V. Panganiban (Independent Director)	October 21, 2010 - present
Margarito B. Teves (Independent Director)	May 20, 2014 - present

<sup>1</sup> Previously served as a Director of the Company from 1974 to 1986.

Set out below are the profiles of the Directors of the Company as of the date of this Annual Report.

**Eduardo M. Cojuangco, Jr.**, Filipino, 81 years old, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive and Compensation Committees of the Company. He presently holds the following positions, namely: Chairman and Chief Executive Officer of San Miguel Corporation (“SMC”); Ginebra San Miguel, Inc. (“GSMI”); San Miguel Pure Foods Company, Inc. (“SMPFC”); Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc. and Northern Cement Corporation; and Director of Caiñaman Farms Inc. Mr. Cojuangco was formerly a director of the Manila Electric Company, member of the Philippine House of Representatives (1970-1972), Governor of Tarlac Province (1967-1979) and Philippine Ambassador-Plenipotentiary. He also served as the President and Chief Executive Officer of United Coconut Planters Bank, President and Director of United Coconut Life Assurance Corporation and Governor of the Development Bank of the Philippines. He attended the College of Agriculture at the University of the Philippines - Los Baños and the California Polytechnic College in San Luis Obispo, U.S.A. and was conferred a post graduate degree in Economics, *honoris causa*, from the University of Mindanao, a post graduate degree in Agri-Business, *honoris causa*, from the Tarlac College of Agriculture, a post graduate degree in Humanities, *honoris causa*, from the University of Negros Occidental-Recoletos, and a post graduate degree in Humanities, *honoris causa*, from the Tarlac State University.

Of the companies in which Mr. Cojuangco currently holds directorships, Petron-affiliates SMC, GSMI and SMPFC are listed with the PSE.

**Ramon S. Ang**, Filipino, 63 years old, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company's Executive and Compensation Committees. He holds the following positions, among others: Chairman of Petron Malaysia Refining & Marketing Bhd. ("PMRMB"), Las Lucas Construction and Development Corporation ("LLCDC"), New Ventures Realty Corporation ("NVRC"), and SEA Refinery Corporation ("SRC"); Chairman and Chief Executive Officer of Petron Marketing Corporation ("PMC") and Petron Freeport Corporation ("PFC"); Chairman and President of Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. ("PAHL"), Philippine Polypropylene Inc. ("PPI") and Robinson International Holdings Ltd.; Director of Petron Fuel International Sdn. Bhd. ("PFISB"), Petron Oil (M) Sdn. Bhd. ("POMSB"), Petron Oil & Gas Mauritius Ltd. ("POGM") and Petron Oil & Gas International Sdn. Bhd. ("POGI"); Vice Chairman, President and Chief Operating Officer of SMC; Chairman of San Miguel Brewery Inc. ("SMB"), San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Manila North Harbour Port, Inc. ("MNHPI") and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp. and Far East Cement Corporation; Chairman and President of San Miguel Properties, Inc., Chairman of Eagle Cement Corporation; Vice Chairman of GSMI and SMPFC; President and CEO of Top Frontier Investment Holdings Inc. ("Top Frontier") and President Northern Cement Corporation; Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region. Previously, Mr. Ang was Chairman of Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc.; Chairman and President of Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Chief Executive Officer of the Paper Industries Corporation of the Philippines, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation. Mr. Ang has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

Of the companies in which Mr. Ang currently holds directorships, SMC and Petron-affiliates GSMI, SMPFC and Top Frontier are also listed with the PSE.

**Lubin B. Nepomuceno**, Filipino, 65 years old, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company's Executive Committee, Audit and Risk Management Committee and Compensation Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd. ("PSTPL"); Chairman of Petrogen Insurance Corporation ("Petrogen"); Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman of Overseas Ventures Insurance Corporation Ltd. ("Ovincor"); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; Director of MNHPI and President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 to February 2013) and the President of the Company (February 2013 to February 2015). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master's degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

Mr. Nepomuceno does not hold a directorship in any other company listed with the PSE.

**Eric O. Recto**, Filipino, 53 years old, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman of Philippine Bank of Communications (“PBCom”); Chairman and CEO of ISM Communications Corporation (“ISM”), and Vice Chairman and President of Atok-Big Wedge Corporation (“Atok”); President and Director of Q-Tech Alliance Holdings, Inc.; and a member of the Board of Supervisors of Acentic GmbH. Mr. Recto was the President and Vice Chairman of the Company (2008-2014), the Chairman and Chief Executive Officer of PFI, and a Director of SMC, PMRMB and the Manila Electric Company (“MERALCO”). He was formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. Prior to his stint with Government, Mr. Recto was Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and a master’s degree in Business Administration from the Johnson School, Cornell University.

Of the companies in which Mr. Recto currently holds directorships, PBCom, Atok, and ISM are also listed with the PSE.

**Estelito P. Mendoza**, Filipino, 87 years old, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Nomination Committee and the Audit and Risk Management Committee. He is likewise a member of the Board of Directors of SMC, Philippine National Bank (“PNB”) and Philippine Airlines, Inc. He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a “Leading Individual in Dispute Resolution” among lawyers in the Philippines in the following directories/journals: “The Asia Legal 500”, “Chambers of Asia” and “Which Lawyer?” yearbooks. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the *Batasang Pambansa* and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31<sup>st</sup> Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines (*cum laude*) and Master of Laws degree from Harvard University. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 “Professional Award in Law” and in 2013 its “Lifetime Distinguished Achievement Award”.

Of the companies in which Atty. Mendoza currently holds directorships, SMC and PNB are also listed with the PSE.

**Jose P. de Jesus**, Filipino, 82 years old has served as a Director of the Company since May 20, 2014. He is also the Chairman of Converge ICT Solutions, Inc. and Metroworks ICT Construction, Inc. (May 2014 to present). He was the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 to December 2015), the Secretary of the Department of Transportation and Communications (July 2010 to June 2011), the President and Chief Operating Officer of MERALCO (February 2009 to June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 to December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 to December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 to 1993) and the Secretary of the Department of Public Works and Highways (January 1990 to February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was *Lux in Domino Awardee* (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of Bantayog ng mga Bayani Foundation, Kapampangan Development Foundation and Holy Angel University. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.



Mr. de Jesus does not hold a directorship in any other company listed with the PSE.

**Aurora T. Calderon**, Filipino, 62 years old, has served as a Director of the Company since August 13, 2010. She is a member of the Audit and Risk Management Committee and the Compensation Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SRC, NVRC, LLCDC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Vega Telecom, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc. and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She has served as a Director of MERALCO (January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989). A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her master's degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

Of the companies in which Ms. Calderon currently holds directorships, SMC and Petron-affiliate Top Frontier are also listed with the PSE.

**Mirzan Mahathir**, Malaysian, 58 years old, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn. Bhd., an investment holding and independent strategic and financial advisory firm based in Malaysia. He currently manages his investments in Malaysia and overseas while facilitating business collaboration in the region. He holds directorships in several public and private companies in South East Asia. He is the Chairman of several charitable foundations, a member of the Wharton School Executive Board for Asia and the Business Advisory Council of United Nations ESCAP, and President of the Lawn Tennis Association of Malaysia. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992-2007), Executive Chairman of Sabit Sdn. Bhd. (1990-1992), Associate of Salomon Brothers in New York, U.S.A. (1986-1990) and Systems Engineer at IBM World Trade Corporation (1982-1985). Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

Mr. Mirzan does not hold any directorship in any other company listed with the PSE.

**Ma. Romela M. Bengzon**, Filipino, 56 years old, has served as a Director of the Company since August 13, 2010. She holds the following positions, among others: Director of PMC; Managing Partner of the Bengzon Law Firm; and professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program, the Ateneo Graduate School of Business and Regis University. She was formerly a Philippine government Honorary Trade Ambassador to the European Union, and Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Philippine Office of the President. A Political Science graduate of the University of the Philippines in 1980 (with honors), she obtained her Bachelor of Laws from the Ateneo de Manila University in 1985.

Atty. Bengzon does not hold any directorship in any other company listed with the PSE.

**Virgilio S. Jacinto**, Filipino, 60 years old, has served as a Director of the Company since August 13, 2010. He is a member of the Governance and Nomination Committees of the Company. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier; Corporate Secretary of GSMI and the other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of San Miguel Brewery Inc., a Partner of the Villareal Law Offices (June 1985-May 1993) and an Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (*cum laude*) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

Atty. Jacinto does not hold any directorship in any other company listed with the PSE.

**Ron W. Haddock**, American, 76 years old, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; and member of the board of Alon Energy USA. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

Mr. Haddock does not hold any directorship in any other company listed with the PSE.

**Nelly F. Villafuerte**, Filipino, 80 years old, has served as a Director of the Company since December 1, 2011. She is a member of the Governance Committee of the Company. She is also a Director of Top Frontier. She is a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the *Bangko Sentral ng Pilipinas* from 2005 until July 2011. She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998-2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Department of Trade and Industry (“DTI”) (July 1998-May 2000), and Undersecretary for the Regional Operations Group of the DTI (May 2000-2005). She holds a master’s degree in Business Management from the Asian Institute of Management (“AIM”) and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked within the top 10 in the bar examinations.

Of the companies in which Atty. Villafuerte currently holds directorships, Petron-affiliate Top Frontier is also listed with the PSE.

**Reynaldo G. David**, Filipino, 74 years old, has served as an Independent Director of the Company since May 12, 2009. He is the concurrent Chairman of the Audit and Risk Management Committee and the Nomination Committee and likewise a member of the Compensation Committee. He is an independent director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Special Trade Representative with the rank of Special Envoy by the Philippine Government, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and ATOK, Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986), various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979-September 1982), and Vice President and Treasurer of Citibank N. A. (November 1964-February 1979). He was conferred with the Presidential Medal of Merit in 2010. A Ten Outstanding Young Men awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005 and the title Doctor of Humanities, *honoris causa*, by the West Visayas State University in 2009.

Other than Petron and SMC, Mr. David does not hold any directorship in any other company listed with the PSE.

**Artemio V. Panganiban**, Filipino, 80 years old, has served as an Independent Director of the Company since October 21, 2010. He is a member of the Audit and Risk Management Committee. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. He is an adviser of Metropolitan Bank and Trust Company and Bank of the Philippine Islands. He was formerly the Chief Justice of the Supreme Court of the Philippines (2005-2006); Associate Justice of the Supreme Court (1995-2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961-1970). He is an author of over ten books and has received various awards for his numerous accomplishments, most notably the “Renaissance Jurist of the 21<sup>st</sup> Century” conferred by the Supreme Court in 2006 and the “Outstanding Manilan” for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree (*cum laude*) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities.

Apart from Petron, he is an independent director of the following listed companies: MERALCO, First Philippine Holdings Corp., Philippine Long Distance Telephone Co., Metro Pacific Investment Corp., Robinsons Land Corp., GMA Network, Inc., GMA Holdings, Inc., Asian Terminals, Inc. and a non-executive director of Jollibee Foods Corporation.

**Margarito B. Teves**, Filipino, 73 years old, has served as an Independent Director of the Company since May 20, 2014 and the Chairman of the Governance Committee of the Company since July 3, 2014. He is also an independent director of SMC and Atok, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., AB Capital Investment Corp. and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of Think

Tank Inc. and a director of the Pampanga Sugar Development Co. He was the Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously the President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He was awarded as “2009 Finance Minister of Year/Asia” by the London-based The Banker Magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Of the companies in which Mr. Teves currently holds directorships, SMC and Atok are also listed with the PSE.

#### Board Attendance and Trainings in 2016

In 2016, the Board of Directors had six (6) meetings held on February 9, March 15, May 5, May 17, August 8 and November 8. Thirteen directors attended all the board meetings held in 2016, with the remaining two (2) directors attending at least 66.67% of all the board meetings held in 2016.

The schedule of the meetings for any given year is presented to the directors the year before. The Board of Directors was therefore advised of the schedule of the board meetings for 2016 at the board meeting held on November 8, 2016. Should any matter requiring immediate approval by the Board of Directors arise, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company’s by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company’s by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 13 (Series of 2013), all the directors of the Company attended a corporate governance seminar in 2015 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminars held in 2016 is set out below:

Director's Name	February 9 Special Board Meeting	March 15 Regular Board Meeting	May 5 Regular Board Meeting	May 17 Annual Stockholders' Meeting	May 17 Organizational Meeting	August 8 Regular Board Meeting	November 8 Regular Board Meeting	Attendance at Corporate Governance Seminar in 2016 (Yes/No)
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	Yes
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	Yes
Estolito P. Mendoza	✓	✓	✓	✓	✓	✓	✓	Yes
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	Yes
Eric O. Recto	✓	✓	✓	✓	✓	✓	✓	Yes
Jose P. De Jesus	✓	✓	✓	✓	✓	✓	✓	Yes
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	Yes
Mirzan Mahathir	✓	✓	✓	▼	▼	▼	✓	Yes
Romela M. Bengzon	✓	✓	✓	✓	✓	✓	✓	Yes
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	Yes
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	Yes
Nelly Favis-Villafuerte	✓	✓	▼	▼	▼	✓	✓	Yes
Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	Yes
Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	Yes
Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	Yes

Legend: ✓ - Present    ▼ - Absent

## Executive Officers

The following are the current key executive officers of the Company:

Name	Position	Date of Election
Ramon S. Ang	President and Chief Executive Officer	<ul style="list-style-type: none"><li>• As President: February 10, 2015 - present;</li><li>• As Chief Executive Officer: January 2009 -present</li></ul>
Lubin B. Nepomuceno	General Manager	February 2015-present
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	January 2009-present
Susan Y. Yu	Vice President - Procurement	January 2009-present
Ma. Rowena Cortez	Vice President - Supply	September 2009-present
Albertito S. Sarte	Vice President - Treasurers and Treasurer	August 2009-present
Freddie P. Yumang	Vice President - Refinery	September 2009-present
Archie B. Gupalor	Vice President - National Sales	March 2012-present
Joel Angelo C. Cruz	Vice President - General Counsel & Corporate Secretary and Compliance Officer	April 2010-present; as Vice President: March 2013
Rodulfo L. Tablante	Vice President - Operations	November 2013-present
Julieta L. Ventigan	Vice President - Business Planning and Development	September 2015-present
Dennis S. Janson	Assistant Vice President and Controller	September 2015-present

Set out below are the profiles of the executive officers of the Company who are not directors, as of the date of this Annual Report.

**Emmanuel E. Eraña**, Filipino, 56 years old, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB, POMSB and MNHPI. Mr. Eraña held the following positions in the San Miguel Group: as the Vice President and Chief Information Officer (January 2008-December 2009), Vice President and Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006-January 2008), Vice President and Chief Finance Officer of SMFBIL/NFL Australia (May 2005-November 2006), Vice President and Chief Finance Officer of SMPFC (July 2002-May 2005), and Assistant Vice President and Finance Officer (January 2001-June 2002), Assistant Vice President and Finance and Management Services Officer, San Miguel Food Group (2000-2001). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

**Susan Y. Yu**, Filipino, 40 years old, has served as the Vice President for Procurement of the Company since January 2009. She is also a Director of Ovincor and Petron Singapore Trading Pte. Ltd. ("PSTPL"). Ms. Yu has served as a trustee of PFI, the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003-February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997-June 2003). She holds a commerce degree in Business Management from the De La Salle University and a master's degree in Business Administration from the Ateneo de Manila University for which she was awarded a gold medal for academic excellence.

**Albertito S. Sarte**, Filipino, 49 years old, has served as the Vice President and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

**Ma. Rowena O. Cortez**, Filipino, 52 years old, has served as the Vice President for Supply of the Company since September 2013, and concurrently the Director for Petron Singapore Trading Pte. Ltd. since June 2013. She is also a Director of PAHL, Robinson International Holdings Ltd., Mariveles Landco Corporation. The various positions she has held in the Company include Vice President for Supply & Operations (July 2010 - August 2013), Vice President for Supply (June 2009 to June 2010) and various managerial and supervisory positions in the Marketing/Sales, and Supply and Operations Divisions of Petron. Ms. Cortez also held various positions at the Phil. National Oil Company - Energy Research and Development Center from 1986 to 1993. She holds a Bachelor of Science degree in Industrial Engineering and a master's degree in Business Administration both from the University of the Philippines, Diliman. She also took post graduate courses at the AIM and the University of Oxford in Oxfordshire, UK. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, risk management, petroleum, petrochemicals and energy.

**Freddie P. Yumang**, Filipino, 58 years old, has served as the Vice President for Refinery of the Company since September 2009. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. He is the lead of the Company's Refinery Master Plan - Phase 2 project and has held various positions in the Company, including Operations Manager and Technical Services Manager, and different supervisory and managerial positions at the Petron Bataan Refinery. Mr. Yumang is currently a director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007). He is a Mechanical Engineering graduate of the Mapua Institute of Technology and earned units for a master's degree in Business Administration from the De La Salle University. He also attended the Basic Management and Management Development Programs of the AIM in 1992 and 2002, respectively, in which he received separate awards for superior performance.

**Archie B. Gupalor**, Filipino, 48 years old, has served as the Vice President for National Sales of the Company since March 2012. He holds the following positions, among others: President and Chief Executive Officer of PFC and Director of PMC, NVRC and LLCDC. Mr. Gupalor served the following positions in the San Miguel Group: He has been with the San Miguel Group since 1991. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and attended several programs here and abroad, including the Executive Management Development Program of the Harvard Business Publishing.

**Joel Angelo C. Cruz**, Filipino, 55 years old, has served as the Vice President of the Office of the General Counsel of the Company since March 2013 and the Corporate Secretary and Compliance Officer of the Company since April 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, Corporate Secretary of LLCDC, NVRC, PMC, and PFC; Corporate Secretary of Petron Global Limited; Assistant Corporate Secretary of MNHPI; and Trustee of PFI. Atty. Cruz was formerly the Assistant Vice President of the Office of the General Counsel, Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries. He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws degree from San Beda College. He attended the Basic Management Program of the AIM in 1997 as well as numerous local and foreign trainings and seminars.

**Rodolfo L. Tablante**, Filipino, 63 years old, has served as the Vice President for Operations of the Company since November 2013. He was the Head of Corporate Technical and Engineering Services Group of the Company from 2009 to 2013. Mr. Tablante was College Instructor and Mechanical Engineering Reviewer in the Cebu Institute of Technology (1975-1978 and 1976-1977, respectively), Process Control Engineer, Operations Planning and Control Head and Plant Operation Superintendent of SMC Mandaue Brewery (1976-1979, 1979-1980 and 1980-1984, respectively), Engineering Manager and Project Manager of SMC - Polo Brewery (1984-1989 and 1989-1992, respectively), Assistant Brewery Consultant, Assistant Vice President, Engineering Manager and Vice President and Engineering Manager of SMC - Corporate Technical Services (1992-2001, 2001-2004 and January 2005-2007, respectively). He was a consultant of SMC from 2007 until December 2009. Mr. Tablante has a Bachelor of Science degree in Mechanical Engineering from the Cebu Institute of Technology and earned units for a master's degree in Mechanical Engineering from the same institute.

**Julieta S. Ventigan**, Filipino, 57 years old, has served as the Vice President for Business Planning and Development of the Company since September 2015. She previously held the position of Assistant Vice President for Business Planning and Development from October 2010 until August 2015. The various positions she has held in the Company include Head of Business Planning and Development (August 2010 - September 2010), Manager for Corporate Planning/Business Planning and Analysis (January 2010 - July 2010) and Manager for Corporate Planning/Strategic Planning (April 2003 - December 2009). She has a Bachelor of Science degree major in Agricultural Economics from the University of the Philippines in Los Baños and a master's degree in Business Administration from the Ateneo Graduate School of Business.

**Dennis S. Janson**, Filipino, 57 years old, has served as the Assistant Vice President for Controllers and the Controller of the Company since September 2015. He is a Director of PSTPL and the Controller of various subsidiaries of Petron. Other positions he held include Assistant Controller of the Company (August 2014 - August 2015), Manager for Financial Analysis and Compliance Controller (March 2013 - July 2014; January 2010 - September 2011), Finance Head and Chief Finance Officer of Petron Malaysia (October 2011 - February 2013) and Manager for Financial Analysis Planning and Risk Management (November 2008 - December 2009). He is a certified public accountant with a Bachelor of Science degree in Accountancy from the University of San Carlos in Cebu.

#### Officer Trainings in 2016

All the executive officers of the Company, including the Assistant Corporate Secretary and the Internal Audit Head, completed a corporate governance seminar for year 2016 conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

#### (ii) Board Committees

The Company has Executive, Compensation and Risk Management, Audit, Nomination and Governance Committees constituted in accordance with the principles of good corporate governance and pursuant to the Company's By-Laws.

- **Executive Committee.** The Executive Committee is composed of not less than three (3) members, which shall include the Chairman of the Board of Directors and the President, with two (2) alternate members. The Executive Committee, when the Board of Directors of Directors is not in session, may exercise the powers of the latter in the management of the business and affairs of the Company, except with respect to (a) the approval of any action for which stockholders' approval is also required, (b) the filling of vacancies in the Board of Directors, (c) the amendment or repeal of the by-laws of the adoption of new by-laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable, (e) a distribution of dividends to the stockholders, and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

As of the date of this Annual Report, the Executive Committee is chaired by Mr. Eduardo M. Cojuangco, Jr. with Mr. Ramon S. Ang and Mr. Lubin B. Nepomuceno as members. Atty. Virgilio S. Jacinto and Ms. Aurora T. Calderon are the two (2) alternate members of the Executive Committee.

In 2016, the Executive Committee held eight (8) meetings, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

Members	January 21	March 2	April 18	July 8	July 20	September 15	October 5	November 25
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	-	✓	✓	✓	✓
Aurora T. Calderon (Alternate Member)	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A
Virgilio S. Jacinto (Alternate Member)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Legend: ✓ - Present      - - Absent

- **Nomination Committee.** The Nomination Committee is composed of three (3) directors with an independent director serving as its Chairman and with the Corporate Secretary acting as its secretary.

The Nomination Committee is responsible for pre-screening and shortlisting candidates nominated to become members of the Board of Directors and other appointments that require board approval to ensure that the director-candidates meet the criteria for election, *i.e.*, they have the qualifications and none of the disqualifications set out in the law and in the CG Manual. The Nomination Committee, in consultation with the management committee and the under the supervision of the Board of Directors, also redefines the role, duties and responsibilities of the Chief Executive Officer of the Company by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. It is also the responsibility of the Nomination Committee to assess the effectiveness of the processes and procedures of the Board of Directors in the election or replacement of directors.

The Nomination Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company, with Atty. Estelito P. Mendoza and Atty. Virgilio S. Jacinto as members.



In 2016, the Nomination Committee held four (4) meetings, with the attendance of the members as follows:

Director's Name	March 15	May 5	August 8	November 8
Reynaldo G. David	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓
Virgilio S. Jacinto	✓	✓	✓	✓

Legend: ✓ - Present      – - Absent

- **Compensation Committee.** The Compensation Committee is composed of five (5) members of the Board of Directors, one of whom is an independent director. The Chairman and the President of the Corporation are included as members but without voting rights. The Chairman of the Board of Directors is the Chairman of the Compensation Committee.

Under the CG Manual, the Compensation Committee is responsible for considering and approving salary structures for individuals in the positions of Vice President (or its equivalent) and above, promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions, and other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans. The Compensation Committee also ensures that the Company's annual reports, information and proxy statements, and such similar documents disclose the fixed and variable compensation received by its directors and top officers for the preceding fiscal year in accordance with the requirements of the law.

As of the date of this Annual Report, the Compensation Committee was chaired by Mr. Eduardo M. Cojuangco with Mr. Ramon S. Ang (non-voting), Mr. Lubin B. Nepomuceno, Mr. Reynaldo G. David and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acted as the advisor to the Compensation Committee.

- **Audit and Risk Management Committee.** The Audit and Risk Management Committee is composed of five (5) members of the Board of Directors, two (2) of whom are independent directors. All the members of the Audit and Risk Management Committee are required to have adequate accounting and finance backgrounds and at least one member with audit experience, in addition to the qualifications of a director. The Chairman of the Audit and Risk Management Committee is further required by the Manual and the Audit and Risk Management Committee Charter to be an independent director.

The Chairman of the Audit and Risk Management Committee is Mr. Reynaldo G. David, an Independent Director of the Company and certified public accountant ("CPA").

The Audit and Risk Management Committee is governed by the Audit and Risk Management Committee Charter, revisions to which to make it compliant with SEC Commission Memorandum Circular No. 4, Series of 2012 were approved by the Board of Directors on November 12, 2012 (the "Audit and Risk Management Committee Charter").

Among the other functions set out in the CG Manual and the Audit and Risk Management Committee Charter, the Audit and Risk Management Committee primarily recommends to the Board each year the appointment of the external auditor to examine the accounts of the Company for that year and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties, and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions. The committee also oversees the Company's risk management framework, policies, processes and activities, reviews the Company's management performance, and reviews and recommends mitigation initiatives.

The Audit and Risk Management Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company and CPA, and its members are former Chief Justice Artemio V. Panganiban (another independent director of the Company), Atty. Estelito P. Mendoza, Mr. Lubin B. Nepomuceno, and Ms. Aurora T. Caderon. Mr. Ferdinand K. Constantino acts as advisor to the committee.

In 2016, the Audit Committee held four (4) meetings on February 10, March 17, May 11, August 10 and October 27. The attendance of the members was as follows:

Members	March 15	May 5	August 8	November 8
Reynaldo G. David	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	✓	✓
Artemio V. Panganiban	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓

Legend: ✓ - Present      - - Absent

- **Governance Committee.** The Governance Committee, created by the Board of Directors on July 3, 2014, is composed of three (3) members of the Board of Directors, one of whom is an Independent Director.

Under the CG Manual, the Governance Committee shall assist the Board of Directors in the development and implementation of the corporate governance policies, structures and systems of the Company, including the review of their adequacy and effectiveness and oversee the adoption and implementation of systems or mechanisms for the assessment and improvement of the performance of the Board of Directors, the Directors and the Board Committees, and the evaluation of the compliance by the Company with the CG Manual.

The Governance Committee is also governed by the Governance Committee Charter, which was adopted by the Board of Directors on May 11, 2015.

The Governance Committee is chaired by Mr. Margarito B. Teves, an independent director of the Company, and its members are Attys. Virgilio S. Jacinto and Nelly Favis-Villafuerte.

The Governance Committee held a meeting on May 11, 2015 with all its members present for the review of the Governance Committee Charter.

### (3) Significant Employees

There was no significant employee or personnel who was not an executive officer but was expected to make a significant contribution to the business.

### (4) Family Relationships

The Company has no director or officer related to any other director or officer up to the fourth degree of consanguinity.

## (5) Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by final judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five (5) years until the date of this Information Statement.

## (B) Executive Compensation

**Standard Arrangements.** Petron's executive officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not executive officers are elected for a term of one year. They receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

**Other Arrangements.** There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

**Warrants or Options.** There are no warrants or options held by directors or officers.

**Employment Contract.** In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one year term until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any director elected in the interim will serve for the remaining term until the next annual meeting of the stockholders.

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (including the estimate for 2017; in millions of pesos):

<i>(a) Name &amp; Principal Position</i>	<i>(b) Year</i>	<i>(c) Salary</i>	<i>(d) Bonus</i>	<i>(e) Other Annual Compensation</i>
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	2017 (est)	92.07	23.07	-
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	2016	87.75	32.29	-
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	2015	79.87	28.56	-
All Other Officers & Directors as a Group Unnamed	2017 (est)	69.39	13.72	-
	2016	64.43	26.72	-
	2015	58.03	14.87	-

**(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2016**

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2016 is as follows:

• SEA Refinery Corporation	-	50.10%
• San Miguel Corporation	-	18.16%
• PCD Nominee Corporation (Filipino)	-	14.19%
• Petron Corporation Employees' Retirement Plan	-	7.80%

SEA Refinery Corporation is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

The Company had no beneficial owner under the PCD Nominee Corporation that held no more than 5% of the common shares of the Company.

*[Rest of page intentionally left blank;  
the security ownership of the directors and executive officers  
follows on next page]*

The security ownership of directors and executive officers as of February 28, 2017 is as follows:

Directors

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Directors</b>					
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Series 2A Preferred			2,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Eric O. Recto	Filipino	1	D	0.00%
Series 2A Preferred			14,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Jose P. De Jesus	Filipino	500 / 225,000	D / I	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Romela M. Bengzon	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Margarito B. Teves	Filipino	500	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.

## Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Executive Officers</b>					
Common	Emmanuel E. Eraña	Filipino	0	-	0.00%
Series 2A Preferred			2,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	385,000	I	0.00%
Series 2A Preferred			10,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Albertito S. Sarte	Filipino	1,000,000	I	0.00%
Series 2A Preferred			5,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Series 2A Preferred			600	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Freddie P. Yumang	Filipino	73,600	I	0.00%
Series 2A Preferred			3,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Series 2A Preferred			400	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rodulfo L. Tablante	Filipino	-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Dennis S. Janson	Filipino	163 / 15,000	D / I	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Julieta L. Ventigan	Filipino	2,100	D	N.A.
Series 2A Preferred			1,000	-	N.A.
Series 2B Preferred			-	-	N.A.
<b>Directors and Executive Officers as a Group</b>		Common	<b>1,728,445</b>		<b>0.00%</b>
		Series 2A Preferred	<b>39,000</b>		<b>0.00%</b>
		Series 2B Preferred	<b>0</b>		<b>0.00%</b>

As of February 28, 2017, the directors and executive officers of the Company owned 1,728,445 common shares and 39,000 Series 2A Preferred Shares for a total of 1,767,445 shares or 0.02% of the Company's total outstanding capital stock. No one of the directors and executive officers of the Company directly owns 5% or more of the outstanding capital stock of the Company.

### (2) Voting Trust Holders of 5% or more

The Company is not aware of any person holding 5% or more of the Company's outstanding shares under a voting trust agreement.

### (3) Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

## (D) Certain Relationships and Related Transactions

The major stockholders of the Company as of December 31, 2016 were as follows:

- |   |   |        |
|---|---|--------|
| • SEA Refinery Corporation                      | - | 50.10% |
| • San Miguel Corporation                        | - | 18.16% |
| • Petron Corporation Employees' Retirement Plan | - | 7.80%  |

The basis of control is the number of the percentage of voting shares held by each.

The Company had no transactions or proposed transactions with any of its directors or officers.

Related party transactions are discussed under Part I(A)(2)(viii) (*Transactions with and/or dependence on related parties*).

*[Rest of page intentionally left blank;  
"Part IV - Corporate Governance" follows on next page]*

## PART IV - CORPORATE GOVERNANCE

### Corporate Governance Manual

The Company adopted its CG Manual on July 1, 2002. In compliance with SEC Memorandum Circular No. 6, Series of 2009, amending SEC Memorandum Circular No. 2, Series of 2002, the Company further adopted revisions to the CG Manual which were approved by the Board of Directors on October 21, 2010. Further revisions to the CG Manual were also undertaken and approved by the Board of Directors on March 2, 2011.

The latest revisions to the CG Manual were approved by the Board of Directors on July 3, 2014 to make the CG Manual compliant with SEC Memorandum Circular No. 9, Series of 2014, which requires a specific reference in the corporate governance manuals of listed companies on the promotion of the interests of “stakeholders” other than the stockholders of the corporation. The latest version of the CG Manual also created the Governance Committee that will assist the Board of Directors in the development and implementation of the corporate governance policies, structures and systems of the Company, including the review of their adequacy and effectiveness, and oversee the adoption and implementation of systems or mechanisms for the assessment and improvement of the performance of the Board of Directors, the directors and the board committees, and the evaluation of the compliance by the Company with the CG Manual.

The Company is in the process of amending its CG Manual to align such CG Manual with the Code of Corporate Governance for Publicly Listed Company approved by the SEC and which took effect on January 1, 2017.

The CG Manual recognizes and upholds the rights of stakeholders in the Company and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and the board committees, the active operation of the Company in a sound and prudent manner, the presence of organizational and procedural controls supported by an effective management information and risk management reporting systems, and the adoption of independent audit measures that monitor the adequacy and effectiveness of the Company’s governance, operations and information systems.

The Board of Directors and the Management of the Company should exercise sound judgment in reviewing and directing how the Company implements the requirements of good corporate governance. Pursuant to this mandate, the Board of Directors appointed Atty. Joel Angelo C. Cruz, Vice President - Office of the General Counsel and Corporate Secretary, as the Compliance Officer of the Company tasked to monitor compliance with the CG Manual and applicable laws, rules and regulations.

### Various Corporate Policies

For the past years, the Company observed the *San Miguel Corporation and Subsidiaries Whistle-blowing Policy* for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the *Petron Corporation and Subsidiaries Whistle-blowing Policy*. The *Petron Corporation and Subsidiaries Whistle-blowing Policy* provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries (the “Petron Group”). The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.



For the past years, the Company also observed the *San Miguel Corporation Policy on Dealings in Securities* for itself and its subsidiaries. On May 6, 2013, the Company likewise adopted the *Petron Corporation Policy on Dealings in Securities*. Under this policy, the directors, officers and employees of the Company are obliged to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code ("SRC"). The policy sets out the conditions and rules under which the directors, officers and employees of the Company should deal in securities of the Company.

### **Board Assessment**

**The directors accomplished the annual self-assessment for 2016.**

In August 2013, the Board of Directors adopted a new format for the annual self-assessment by each director of his/her performance and that of the Board of Directors and the board committees.

The self-assessment forms covers the evaluation of the (i) fulfillment of the key responsibilities of the Board of Directors including the consideration of the interests of minority shareholders and stakeholders and their equitable treatment in its decision-making processes, the pursuit of good corporate governance, the establishment of a clear strategic direction for the Company designed to maximize long-term shareholder value, the review and approval of financial statements and budgets, and the appointment of directors who can add value and contribute independent judgment to the formulation of sound policies and strategies of the Company and officers who are competent and highly motivated; (ii) relationship between the Board of Directors and the Management of the Company including having a clear understanding of where the role of the Board of Directors ends and where that of Management begins, the participation of the Board of Directors and the board committees in major business policies or decisions, the continuous interaction with Management for an understanding of the businesses better, and the consideration of the correlation between executive pay and Company performance; (iii) effectiveness of board process and meetings through the adequacy of the frequency, duration and scheduling of board and committee meetings, the ability of the Board of Directors to balance and allocate its time effectively in discussing issues related to the Company's strategy and competitiveness, the attendance at board and committee meetings and the conduct of meetings in a manner that ensures open communication, meaningful participation, and timely resolution of issues, the wide and diverse range of expertise and occupational and personal backgrounds of the directors, and the institutionalization of a formal review process for monitoring the effectiveness of the Board of Directors and the individual directors; and (iv) individual performance of the directors including a director's understanding of the mission, values and strategies of the Company, his/her duties as a director and the Company's Articles, the Company's By-Laws and governing policies and applicable law, rules and regulations, the attendance at meetings and the conscious effort to avoid entering into situations where a director may be placed in a conflict of interest with that of the Company.

### **Compliance with CG Manual**

The Company is in compliance with the provisions of the CG Manual.

- Its directors possess all the qualifications and none of the disqualifications of a director under the CG Manual, the Company's By-laws and applicable laws and regulations.
- The Company has three (3) independent directors (Mr. Reynaldo G. David, Retired Supreme Court Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves) and a Compliance Officer (Atty. Joel Angelo C. Cruz).
- The Chairmen and the members of the Audit and Risk Management, Compensation, Nomination, Executive and Governance Committees were elected pursuant to the requirements of the CG Manual and the Company's By-laws.
- The Company regularly held board meetings and board committee meetings, at which a quorum was always present.

- The directors properly discharge their duties and responsibilities as directors and attended a corporate governance seminar.
- Each director accomplished a self-assessment form for 2016.
- The Company has an external auditor.
- The Company has an Internal Audit Department.
- The Company respects and observes the rights of its stockholders under applicable law.
- The Company is in material compliance with laws and regulations applicable to its business operations, including applicable accounting standards and disclosure requirements,

#### In the Top 50 of the Philippine Publicly-Listed Companies

From 2005 until 2011, the Institute of Corporate Directors (“ICD”), in collaboration with the SEC, the PSE, and the Ateneo School of Law, consistently recognized the Company as among the top publicly-listed companies with good corporate governance.

Beginning 2012, Philippine publicly-listed companies have been evaluated using the ASEAN Corporate Governance Scorecard (“ACGS”) developed by the ASEAN Capital Markets Forum in preparation for the ASEAN integration in 2015. The ACGS, which is based on international best practices in corporate governance, assesses publicly-listed companies using publicly available information.

The Company has consistently placed in the top 50 Philippine publicly-listed companies with good corporate governance since the launch of the use of the ACGS in 2012.

#### Pursuit of Corporate Governance

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance, including through the attendance at briefings conducted by the ICD for the new ASEAN Corporate Governance Scorecard. The Company also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company’s corporate objectives and the best interests of its stakeholders and the Company.

To further instill good governance in the Company, the Company will continue to coordinate with accredited providers for the attendance of the directors and officers in more extensive corporate governance programs to keep them updated with the latest developments in and best practices on good corporate governance. The Office of the General Counsel and Corporate Secretary will also continue to periodically release internal memoranda to explain and/or reiterate the Company’s corporate governance practices and the latest good corporate governance practices in general.

And as above mentioned, the Company is also in the process of amending its CG Manual to align such CG Manual with the Code of Corporate Governance for Publicly Listed Company approved by the SEC and which took effect on January 1, 2017.

#### Annual Corporate Governance Report (“ACGR”)

Other matters relating to the governance of the Company are discussed in the ACGR of the Company filed with the SEC and posted on the company website.

## PART V - EXHIBITS AND SCHEDULES

### Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2015 until the date of this report.

#### Annexes

1. Annex A - Public Ownership Report as of December 31, 2016
2. Annex B - Public Ownership Report as of February 28, 2017
3. Annex C - 2016 Audited Financial Statements, with the Index to Financial Statements  
And the Supplementary Schedules (Petron and Subsidiaries)

#### Reports on SEC Form 17-C

The following reports on SEC Form 17-C were made for year 2016 until the date of this Annual Report:

Disclosure Date	Item Description
February 22, 2016	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron sees P18B net profit”
March 1, 2016	Response to the request for comments and/or clarifications by the Philippine Stock Exchange on the issues raised by Villanueva Gabionza & Dy Law Offices, counsel of Harbour Centre Port Terminal, Inc., regarding the interest of the Company in Manila North Harbour Port, Inc.
March 15, 2016	<p>Matters approved at the Board meeting held:</p> <ol style="list-style-type: none"> <li>1. 2015 Audited Financial Statements</li> <li>2. Endorsement of the re-appointment of R. G. Manabat &amp; Co./KPMG (formerly, “Manabat Sanagustin &amp; Co.”) as external auditor of the Company for 2016 at the annual stockholders’ meeting scheduled on May 17, 2016</li> <li>3. Cash dividend for common shareholders</li> <li>4. Cash dividend for the preferred shareholders</li> <li>5. Annual Stockholders’ Meeting               <ol style="list-style-type: none"> <li>a. Date of meeting: May 17, 2016</li> <li>b. Venue: Valle Verde Country Club, Pasig City</li> <li>c. Record date: March 31, 2016</li> <li>d. Closing of books: April 1-7, 2016</li> </ol> </li> </ol> <p>Media release on performance also submitted.</p>
May 5, 2016	<p>Matter approved at the board meeting was the year-to-date March 2016 Financial Performance Report</p> <p>Media release on performance also submitted</p>

May 17, 2016

Matters approved at the annual stockholders' and organizational meetings held:

A. Annual Stockholders' Meeting

1. Appointment of R.G. Manabat & Co. as independent external auditor of the Company for year 2016
2. Election of the following as directors of the Company for 2016-2017:
  1. Eduardo M. Cojuangco, Jr.
  2. Ramon S. Ang
  3. Lubin B. Nepomuceno
  4. Estelito P. Mendoza
  5. Jose P. De Jesus
  6. Eric O. Recto
  7. Mirzan Mahathir
  8. Ron W. Haddock
  9. Romela M. Bengzon
  10. Aurora T. Calderon
  11. Virgilio S. Jacinto
  12. Nelly Favis-Villafuerte

Independent Directors

1. Reynaldo G. David
2. Artemio V. Panganiban
3. Margarito B. Teves

B. Organizational Meeting

1. Appointment of the following as members of the board committees:

(i) Executive Committee

Eduardo M. Cojuangco, Jr.	- Chairman
Ramon S. Ang	- Member
Lubin B. Nepomuceno	- Member
Aurora T. Calderon	- Alternate Member
Virgilio S. Jacinto	- Alternate Member

(ii) Audit and Risk Management Committee

Reynaldo G. David	- Chairman
Lubin B. Nepomuceno	- Member
Estelito P. Mendoza	- Member
Artemio V. Panganiban	- Member
Aurora T. Calderon	- Member
Ferdinand K. Constantino	- Advisor

	<p>(iii) Compensation Committee</p> <p>Eduardo M. Cojuangco, Jr. - Chairman  Ramon S. Ang - Member  Lubin B. Nepomuceno - Member  Reynaldo G. David - Member  Aurora T. Calderon - Member  Ferdinand K. Constantino - Advisor</p> <p>(iv) Nomination Committee</p> <p>Reynaldo G. David - Chairman  Estelito P. Mendoza - Member  Virgilio S. Jacinto - Member</p> <p>(v) Governance Committee</p> <p>Margarito B. Teves - Chairman  Virgilio S. Jacinto - Member  Nelly Favis-Villafuerte - Member</p> <p>2. Election of the following as officers of the Company for 2016-2017:</p> <p>Eduardo M. Cojuangco, Jr. - Chairman  Ramon S. Ang - President &amp; Chief Executive Officer  Lubin B. Nepomuceno - General Manager  Emmanuel E. Eraña - Senior Vice President &amp; Chief Finance Officer  Susan Y. Yu - VP, Procurement  Maria Rowena O. Cortez - VP, Supply  Freddie P. Yumang - VP, Refinery  Archie B. Gupalor - VP, National Sales  Albertito S. Sarte - VP, Treasurers &amp; Treasurer  Joel Angelo C. Cruz - VP - General Counsel &amp; Corporate Secretary/Compliance Officer  Rodulfo L. Tablante - VP, Operations &amp; concurrent Corporate Technical Engineering Services Group Head  Jaime O. Lu - VP &amp; Operations Manager, Petron Malaysia  Julieta L. Ventigan - AVP, Business Planning &amp; Development  Dennis S. Janson - AVP &amp; Controller  Nathaniel R. Orillos - AVP, Refinery Production  Nolan L. Rada - AVP, Reseller Trade  David M. Mahilum - AVP, Refinery Production B  Rolando R. Evangelista - AVP, Power Plant &amp; Utilities</p>
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	<p>Dennis M. Floro - AVP, Supply</p> <p>Ma. Rosario D. Vergel de Dios - AVP, Human Resources</p> <p>Conrado S. Rivera, Jr. - AVP, Industrial Trade</p> <p>Mary Ann M. Neri - AVP, Marketing</p> <p>Andrew S. Fortuno - AVP, Operations</p> <p>Magnolia Cecilia D. Uy - AVP, Market Planning, Research &amp; Sales Information</p> <p>Charmaine V. Canillas - AVP, Corporate Affairs Department</p> <p>Fernando S. Magnayon - AVP, LPG, Lubes and Greases</p> <p>Samuel S. Candido - AVP, Refinery Technical Services</p> <p>Myrna C. Geronimo - AVP &amp; Chief Finance Officer, Petron Malaysia</p> <p>Rolando B. Salonga - AVP, Operations</p> <p>Jhoanna Jasmine M. Javier-Elacio - Assistant Corporate Secretary</p> <p>3. Adoption of the General Resolutions of the Company setting out the signing authority for certain corporate transactions (the “General Resolutions”)</p>										
June 22, 2016	<p>Filing of Certificates of Attendance of the following directors at the Corporate Governance Seminars:</p> <ol style="list-style-type: none"> <li>1. Mr. Eric O. Recto (advice of attendance received on June 21, 2016)</li> <li>2. Former Chief Justice Artemio V. Panganiban (advice of attendance received on June 22, 2016)</li> </ol>										
August 8, 2016	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. 1<sup>st</sup> Semester 2016 Financial Statements</li> <li>2. Cash dividend for preferred shareholders</li> <li>3. Appointment of Mr. Rommel B. Remulla as Assistant Vice President - Reseller Trade effective August 1, 2016 and Mr. Virgilio V. Centeno as Assistant Vice President - LPG, Lubes and Greases effective September 1, 2016</li> <li>4. Public offer and issuance of up to P40 billion worth of peso-denominated fixed-rate retail bonds via a shelf registration for a period of three (3) years</li> </ol> <p>Media release on performance also submitted</p>										
August 9, 2016	<p>Filing of Certificates of Attendance of the following directors and officers at the Corporate Governance Seminar held on August 9, 2016:</p> <table border="0"> <thead> <tr> <th>Name</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>1. Lubin B. Nepomuceno</td> <td>Director/General Manager</td> </tr> <tr> <td>2. Estelito P. Mendoza</td> <td>Director</td> </tr> <tr> <td>3. Jose P. De Jesus</td> <td>Director</td> </tr> <tr> <td>4. Aurora T. Calderon</td> <td>Director</td> </tr> </tbody> </table>	Name	Position	1. Lubin B. Nepomuceno	Director/General Manager	2. Estelito P. Mendoza	Director	3. Jose P. De Jesus	Director	4. Aurora T. Calderon	Director
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	<p>5. Nelly Favis-Villafuerte Director</p> <p>6. Reynaldo G. David Independent Director</p> <p>7. Margarito B. Teves Independent Director</p> <p>8. Emmanuel E. Eraña Senior Vice President &amp; Chief Finance Officer</p> <p>9. Susan Y. Yu Vice President, Procurement</p> <p>10. Albertito S. Sarte Vice President, Treasurers &amp; Treasurer</p> <p>11. Rowena O. Cortez Vice President, Supply</p> <p>12. Archie P. Gupalor Vice President, National Sales</p> <p>13. Joel Angelo C. Cruz Vice President - General Counsel &amp; Corporate Secretary</p> <p>14. Rodolfo L. Tablante Vice President, Operations &amp; concurrent Corporate Technical Engineering Services Group Head</p> <p>15. Julieta L. Ventigan Vice President, Business Planning and Development</p> <p>16. Dennis S. Janson Assistant Vice President &amp; Controller</p> <p>17. Jhoanna Jasmine M. Javier-Elacio Assistant Corporate Secretary</p>
August 26, 2016	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron readies P20-b fixed rate bond issue”
September 9, 2016	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled “Petron pegs interest rate for P20-B bonds”
September 15, 2016	Approval by the Executive Committee of the authority to the Company to negotiate, enter into and conclude with SMC Powergen Inc. the relevant definitive agreements for the purchase and acquisition by the Company of the 140 MW Solid Fuel-Fired Plant of SMC Powergen located in the Petron Bataan Refinery (the “Power Plant”) under such terms and conditions as Management may deem proper. The Executive Committee likewise authorized the Company to secure and avail of credit facility agreements to fund the proposed acquisition of the Power Plant.
October 12, 2016	<p>Disclosures submitted on October 12, 2016 to the Philippine Stock Exchange (“PSE”):</p> <p>1. Letter dated October 12, 2016 replying to the PSE’s request for clarification on the news article entitled “SEC approves Petron bond issue but with conditions” posted in BusinessWorld Online on October 11, 2016.</p> <p>The letter confirmed the following:</p> <p>(i) the Company’s receipt of the pre-effective letter of the Securities and Exchange Commission dated October 12, 2016 (the “Pre-Effective Letter”) in connection with the Company’s registration statement for the shelf registration and sale in the Philippines of peso-denominated fixed rate bonds of up to ₱40 billion (the “Bonds”); and</p>

	<p>(ii) the advice from the SEC Market and Securities Regulation Department that the SEC Corporate Governance and Finance Department, in fulfillment of the condition in the Pre-Effective Letter, confirmed the qualification of Director Reynaldo G. David to be an independent director of the Company; and</p> <p>2. Letter dated October 12, 2016 advising the issuance by the SEC of the order for the shelf registration of the Bonds and the Permit to Sell for the first tranche of the Bonds in an aggregate amount of ₱15 billion, with an oversubscription option of ₱5 billion.</p>												
October 27, 2016	Media release entitled “Petron Issues P20 Billion Fixed Rate Retail Bonds”												
November 8, 2016	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. Year-to-date September 2016 Financial Statements</li> <li>2. Appointment of Mr. Rolando B. Salonga as Vice President - Terminal Operations, Mr. Noel S. Ventigan as Assistant Vice President - Metro Manila and Manufacturing, and Ms. Terelu O. Carrillo as Assistant Vice President - Petron Singapore Trading Pte Ltd., all effective November 16, 2016</li> </ol> <p>Media release on performance also submitted</p>												
November 8, 2016	<p>Filing of Certificates of Attendance of the following directors at the Corporate Governance Seminars:</p> <table border="0"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: left;">Position</th> </tr> </thead> <tbody> <tr> <td>1. Ramon S. Ang</td> <td>Director/President and Chief Executive Officer</td> </tr> <tr> <td>2. Ron W. Haddock</td> <td>Director</td> </tr> <tr> <td>3. Romela M. Bengzon</td> <td>Director</td> </tr> <tr> <td>4. Freddie P. Yumang</td> <td>Vice President, Refinery</td> </tr> <tr> <td>5. Rolando T. Ferrer</td> <td>Head, Internal Audit</td> </tr> </tbody> </table>	Name	Position	1. Ramon S. Ang	Director/President and Chief Executive Officer	2. Ron W. Haddock	Director	3. Romela M. Bengzon	Director	4. Freddie P. Yumang	Vice President, Refinery	5. Rolando T. Ferrer	Head, Internal Audit
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Name	Position												
1. Virgilio S. Jacinto	Director												
November 22, 2016	<p>Filing of Certificate of Attendance of the following director at the Corporate Governance Seminar:</p> <table border="0"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: left;">Position</th> </tr> </thead> <tbody> <tr> <td>1. Eduardo M. Cojuangco, Jr.</td> <td>Director/Chairman</td> </tr> </tbody> </table>	Name	Position	1. Eduardo M. Cojuangco, Jr.	Director/Chairman								
Name	Position												
1. Eduardo M. Cojuangco, Jr.	Director/Chairman												
December 12, 2016	Filing of Certificate of Attendance of the following director at the Corporate Governance Seminar:												



	Name	Position
	1. Mirzan Mahathir	Director
December 23, 2016	Execution by the Company and SMC PowerGen Inc. of the definitive agreements for the acquisition and purchase by the Company from the SMC PowerGen of the 140 MW Solid Fuel-Fired Power Plant located in the Petron Bataan Refinery for a total consideration of P20,029,982,560.00 (inclusive of value added tax).	
March 14, 2017	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. 2016 Financial Statements</li> <li>2. Endorsement of the Re-Appointment of R.G. Manabat &amp; Co. as external auditor of the Company for year 2017</li> <li>3. Cash dividend for common shareholders</li> <li>4. Cash dividends for Series 2 preferred shareholders</li> <li>5. Annual Stockholders' Meeting <ol style="list-style-type: none"> <li>a. Date: May 16, 2017</li> <li>b. Record date: March 28, 2017</li> <li>c. Closing of books: March 29-April 4, 2017</li> </ol> </li> <li>6. Nominees to the Board of Directors and Final List of Candidates for Independent Directors: <ol style="list-style-type: none"> <li>a. Eduardo M. Cojuangco, Jr.</li> <li>b. Ramon S. Ang</li> <li>c. Lubin B. Nepomuceno</li> <li>d. Estelito P. Mendoza</li> <li>e. Jose P. De Jesus</li> <li>f. Eric O. Recto</li> <li>g. Mirzan Mahathir</li> <li>h. Ron W. Haddock</li> <li>i. Romela M. Bengzon</li> <li>j. Aurora T. Calderon</li> <li>k. Virgilio S. Jacinto</li> <li>l. Nelly Favis-Villafuerte</li> </ol> <p style="text-align: center;"><u>Independent Directors</u></p> <ol style="list-style-type: none"> <li>m. Reynaldo G. David</li> <li>n. Artemio V. Panganiban</li> <li>o. Margarito B. Teves</li> </ol> </li> </ol> <p>Media release on performance also submitted</p>	

## Press Releases

The following press releases were made for year 2016 until the date of this Annual Report:

March 15, 2016	“Amid Weak Oil Prices, Petron Income More Than Doubles to P6.3 Billion in 2015”
May 5, 2016	“Petron Posts P2.8 Billion Income in 1 <sup>st</sup> Quarter of 2016 on Stronger Sales”
August 8, 2016	“Petron Posts P5.3 Billion Income in the First Half of 2016 on Stronger Sales”
October 27, 2016	“Petron Issues P20 Billion Fixed Rate Retail Bonds”
November 8, 2016	“Petron Sustains Momentum, Posts P7.4 Billion Income in 1 <sup>st</sup> 9 Months of 2016”
March 14, 2017	“Petron Posts P10.8 Billion Income for 2016 as Sales Hit Record Highs”

*[Rest of page intentionally left blank;  
signature page follows on next page]*

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on APR 05 2017.

By:



RAMON S. ANG  
President and Chief Executive Officer



LUBIN B. NEPOMUCENO  
General Manager



EMMANUEL E. ERAÑA  
Senior Vice President and Chief Finance Officer



DENNIS S. JANSON  
Assistant Vice President and Controller



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

SUBSCRIBED AND SWORN to before me this \_\_\_ of APR 05 2017 2017 at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

Name	Passport Number	Date of Issue (mm-dd-yy)	Place of Issue
Ramon S. Ang	EC3542718	2-27-2015	DFA, Manila
Lubin B. Nepomuceno	EC7321524	4-6-2016	DFA, NCR East
Emmanuel E. Eraña	EC2176330	9-23-14	DFA NCR Central
Dennis S. Janson	EB6526183	10-10-12	Philippine Embassy, KL, Malaysia
Joel Angelo C. Cruz	EB6976457	12-19-12	DFA, Manila

Doc. No. 360 ;  
 Page No. 73 ;  
 Book No. VII ;  
 Series of 2017.



**SON-VIC P. QUEZON**  
 Notary Public for Mandaluyong City  
 10 San Miguel Avenue, 1550 Mandaluyong City  
 Appointment No. 0382-16  
 Until December 31, 2017  
 Attorney's Roll No. 56728  
 PTR No. 3017310/1-3-17/Mandaluyong  
 Lifetime IBP No. 08324  
 MCLE Compliance No. 4020700/4-20-2016

## **ANNEX A**

# **Public Ownership Report as of December 31, 2016**



**PCOR  
PUBLIC OWNERSHIP REPORT**

**Report Date:** December 31, 2016

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

Less:

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000		1,000	0.0000%
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Aurora T. Calderon	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Eric O. Recto	1		1	0.0000%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Romela M. Bengzon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Artemio V. Panganiban	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana			0	0.0000%
Rowena O. Cortez	8,580		8,580	0.0001%
Rodulfo L. Tablante			0	0.0000%
Dennis S. Janson	163	15,000	15,163	0.0002%

Archie B. Gupalor	3,000		3,000	0.0000%
Susan Y. Yu		385,000	385,000	0.0041%
Freddie P. Yumang		73,600	73,600	0.0008%
Albertito S. Sarte		1,000,000	1,000,000	0.0107%
Joel Angelo C. Cruz			0	0.0000%
Julieta L. Ventigan	2,100		2,100	0.0000%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
Petron Corporation Employees' Retirement Fund (PCERP)	731,156,097		731,156,097	7.80%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**H. Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	7,320,713	0	7,320,713	0.0781%

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

Number of Listed Common Shares *	9,375,104,497
Total Number of Non-Public Shares	7,139,961,379
Total Number of Shares Owned by the Public	2,235,143,118
Public Ownership Percentage	23.84%

\* As indicated in the PSE website

## **ANNEX B**

# **Public Ownership Report as of February 28, 2017**





**PCOR**  
**PUBLIC OWNERSHIP REPORT**

**Report Date:** February 28, 2017

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

**Less:**

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000		1,000	0.0000%
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Aurora T. Calderon	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Eric O. Recto	1		1	0.0000%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Romela M. Bengzon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Artemio V. Panganiban	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana			0	0.0000%
Rowena O. Cortez	8,580		8,580	0.0001%
Rodolfo L. Tablante			0	0.0000%
Dennis S. Janson	163	15,000	15,163	0.0002%

Archie B. Gupalor	3,000		3,000	0.0000%
Susan Y. Yu		425,000	425,000	0.0045%
Freddie P. Yumang		73,600	73,600	0.0008%
Albertito S. Sarte		1,000,000	1,000,000	0.0107%
Joel Angelo C. Cruz			0	0.0000%
Julietta L. Ventigan	2,100		2,100	0.0000%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
Petron Corporation Employees' Retirement Fund (PCERP)	731,156,097		731,156,097	7.80%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**H. Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	7,429,539	0	7,429,539	0.0792%

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

<b>Number of Listed Common Shares *</b>	9,375,104,497
<b>Total Number of Non-Public Shares</b>	7,140,110,205
<b>Total Number of Shares Owned by the Public</b>	2,234,994,292
<b>Public Ownership Percentage</b>	23.84%

\* As indicated in the PSE website

## **ANNEX C**

# **2016 Audited Financial Statements (Petron & Subsidiaries)**

**C O V E R   S H E E T**  
for  
**A U D I T E D   F I N A N C I A L   S T A T E M E N T S**

**SEC Registration Number**

									3	1	1	7	1
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**COMPANY NAME**

P	E	T	R	O	N		C	O	R	P	O	R	A	T	I	O	N		A	N	D							
S	U	B	S	I	D	I	A	R	I	E	S																	

**PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)**

S	M	C		H	e	a	d		O	f	f	i	c	e		C	o	m	p	l	e	x							
4	0			S	a	n		M	i	g	u	e	l		A	v	e	n	u	e									
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														

**Form Type**

A	A	F	S
---	---	---	---

**Department requiring the report**

--

**Secondary License Type, If Applicable**

Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 2010 and 2014
---

**COMPANY INFORMATION**

**Company's email Address**

<a href="mailto:contactus@petron.com">contactus@petron.com</a>
--

**Company's Telephone Number/s**

886-3888, 884-9200
--------------------

**Mobile Number**

--

**No. of Stockholders**

148,293 <small>(as of December 31, 2016)</small>
---

**Annual Meeting (Month / Day)**

May 16, 2017
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**Fiscal Year (Month / Day)**

December 31
-------------

**CONTACT PERSON INFORMATION**

**The designated contact person *MUST* be an Officer of the Corporation**

**Name of Contact Person**

Dennis S. Janson
------------------

**Email Address**

djanson@petron.com
--------------------

**Telephone Number/s**

886-3888 loc 49189
-----------------------

**Mobile Number**

--

**CONTACT PERSON'S ADDRESS**

SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
---

**Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**Note 2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

**PETRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2016, 2015 and 2014**



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
Email [ph-inquiry@kpmg.com.ph](mailto:ph-inquiry@kpmg.com.ph)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

### *Opinion*

We have audited the consolidated financial statements of Petron Corporation and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Revenue Recognition (P343,840 million)*

Refer to Note 3, *Significant Accounting Policies* and Note 37, *Segment Information* to the consolidated financial statements.

#### *The risk*

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Group have been transferred. Revenue generated from the sale of petroleum products is susceptible to manipulation as the pricing is dependent on contractual terms rather than publicly available pricing. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and the sales target which forms part of the Group's key performance measure create incentive to record revenue incorrectly.

#### *Our response*

We performed the following audit procedures, among others, around revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts, including any unusual or irregular items.
- We tested credit notes recorded after the financial year to identify potential reversals of revenue inappropriately recognized in the current financial year.



*Valuation of Inventories (P44,147 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

*The risk*

There is a risk over the recoverability of the Group's inventories due to market price volatility of crude and petroleum products. Such volatility can lead to potential issues over the full recoverability of inventory balances. In addition, determining the net realizable value of inventories is subject to a high degree of judgment and estimation. This includes estimating the selling price of finished goods and the cost of conversion of raw materials.

*Our response*

We performed the following audit procedures, among others, around valuation of inventories:

- We obtained and reviewed the calculation of write down of the Group's raw materials and finished goods based on the net realizable value of finished goods at yearend.
- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated cost of finished goods to the net realizable value to determine any potential write-down.
- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference in the net realizable value against the cost of inventory held at yearend.

*Valuation of goodwill (P7,480 million)*

Refer to Note 3, *Significant Accounting Policies*, Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 13, *Investment in Shares of Stock of Subsidiaries and Goodwill* to the consolidated financial statements.

*The risk*

The Group holds a significant amount of goodwill arising from several business acquisitions. We particularly focused on the valuation of goodwill allocated to Petron Oil and Gas International Sdn. Bhd. Group (Petron Malaysia Group) which accounts for 99% of total goodwill. The annual impairment test was significant to our audit as the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions. The assumptions used included future cash flow projections, growth rates, discount rates and sensitivity analyses.





#### *Our response*

We performed the following audit procedures, among others, around valuation of goodwill:

- We tested the integrity of the discounted cash flow model. This involved using our own valuation specialist to assist us in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.
- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.
- We compared the sum of the discounted cash flows to the Group's market capitalization to assess the reasonableness of those cash flows.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

**R.G. MANABAT & CO.**

DARWIN P. VIROCEL  
Partner

CPA License No. 0094495

SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904948MD

Issued January 3, 2017 at Makati City

March 14, 2017  
Makati City, Metro Manila

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

	Note	December 31	
		2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	P17,332	P18,881
Financial assets at fair value			
through profit or loss	6, 34, 35	221	509
Available-for-sale financial assets	7, 34, 35	71	233
Trade and other receivables - net	4, 8, 28, 34, 35	31,548	30,749
Inventories	4, 9	44,147	30,823
Other current assets	14	32,499	34,530
<b>Total Current Assets</b>		<b>125,818</b>	<b>115,725</b>
<b>Noncurrent Assets</b>			
Available-for-sale financial assets	7, 34, 35	408	388
Property, plant and equipment - net	4, 11, 37	176,604	161,597
Investment in shares of stock of an associate	4, 10	1,883	1,814
Investment property - net	12	91	112
Deferred tax assets - net	4, 27	194	211
Goodwill - net	4, 13	7,480	7,694
Other noncurrent assets - net	4, 14, 28, 34, 35	6,415	6,726
<b>Total Noncurrent Assets</b>		<b>193,075</b>	<b>178,542</b>
		<b>P318,893</b>	<b>P294,267</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	15, 34, 35	P90,366	P99,481
Liabilities for crude oil and petroleum products	16, 28, 34, 35	29,966	16,271
Trade and other payables	17, 28, 30, 34, 35	16,161	9,347
Derivative liabilities	34, 35	778	603
Income tax payable		626	183
Current portion of long-term debt - net	18, 34, 35	20,911	694
<b>Total Current Liabilities</b>		<b>158,808</b>	<b>126,579</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 34, 35	58,941	71,726
Retirement benefits liability	30	3,315	5,509
Deferred tax liabilities - net	27	5,726	4,638
Asset retirement obligation	4, 19	2,324	1,809
Other noncurrent liabilities	20, 34, 35	959	906
<b>Total Noncurrent Liabilities</b>		<b>71,265</b>	<b>84,588</b>
<b>Total Liabilities</b>		<b>230,073</b>	<b>211,167</b>

Forward

		<b>December 31</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>21</b>		
Capital stock		<b>P9,485</b>	P9,485
Additional paid-in capital		<b>19,653</b>	19,653
Undated subordinated capital securities		<b>30,546</b>	30,546
Retained earnings		<b>42,011</b>	41,712
Equity reserves		<b>(7,204)</b>	(8,767)
Treasury stock		<b>(10,000)</b>	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>84,491</b>	82,629
<b>Non-controlling Interests</b>	<b>13</b>	<b>4,329</b>	471
<b>Total Equity</b>		<b>88,820</b>	83,100
		<b>P318,893</b>	P294,267

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	2016	2015	2014
<b>SALES</b>	28, 37	<b>P343,840</b>	P360,178	P482,535
<b>COST OF GOODS SOLD</b>	22	<b>306,125</b>	328,734	463,404
<b>GROSS PROFIT</b>		<b>37,715</b>	31,444	19,131
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	23	<b>(13,918)</b>	(13,310)	(11,526)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(7,557)</b>	(5,533)	(5,528)
<b>INTEREST INCOME</b>	26, 37	<b>507</b>	686	844
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	10	<b>66</b>	133	102
<b>OTHER INCOME (EXPENSES) - Net</b>	26	<b>(2,435)</b>	(3,495)	790
		<b>(23,337)</b>	(21,519)	(15,318)
<b>INCOME BEFORE INCOME TAX</b>		<b>14,378</b>	9,925	3,813
<b>INCOME TAX EXPENSE</b>	27, 36, 37	<b>3,556</b>	3,655	804
<b>NET INCOME</b>		<b>P10,822</b>	P6,270	P3,009
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>P10,100</b>	P5,618	P3,320
Non-controlling interests		<b>722</b>	652	(311)
		<b>P10,822</b>	P6,270	P3,009
<b>BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>P0.60</b>	P0.15	(P0.15)

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
(Amounts in Million Pesos)

	<i>Note</i>	2016	2015	2014
<b>NET INCOME</b>		<b>P10,822</b>	P6,270	P3,009
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Equity reserve for retirement plan	30	2,647	(3,112)	(4,656)
Share in other comprehensive income (loss) of an associate and joint ventures	10	3	(6)	-
Income tax benefit (expense)		(794)	935	1,396
		<b>1,856</b>	(2,183)	(3,260)
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Exchange differences on translation of foreign operations		523	(3,748)	(1,475)
Unrealized fair value losses on available-for-sale financial assets	7	(2)	(1)	(25)
Income tax benefit		1	-	2
		<b>522</b>	(3,749)	(1,498)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>2,378</b>	(5,932)	(4,758)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax</b>		<b>P13,200</b>	P338	(P1,749)
<b>Attributable to:</b>				
Equity holders of the Parent Company		P12,742	P390	(P1,368)
Non-controlling interests		458	(52)	(381)
		<b>P13,200</b>	P338	(P1,749)

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
(Amounts in Million Pesos)

	Note	Equity Attributable to Equity Holders of the Parent Company							Treasury Stock	Total	Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Undated Retained Earnings		Equity Reserves					
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				
<b>As of January 1, 2016</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P25,082</b>	<b>P16,630</b>	<b>(P3,204)</b>	<b>(P5,563)</b>	<b>(P10,000)</b>	<b>P82,629</b>	<b>P471</b>	<b>P83,100</b>
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	784	-	784	(261)	523
Equity reserve for retirement plan - net of tax		-	-	-	-	-	1,856	-	-	1,856	(3)	1,853
Share in other comprehensive income of an associate and joint ventures		-	-	-	-	-	3	-	-	3	-	3
Other comprehensive income (loss)		-	-	-	-	-	1,859	783	-	2,642	(264)	2,378
Net income for the year		-	-	-	-	10,100	-	-	-	10,100	722	10,822
Total comprehensive income for the year		-	-	-	-	10,100	1,859	783	-	12,742	458	13,200
Cash dividends	21	-	-	-	-	(1,584)	-	-	-	(1,584)	(168)	(1,752)
Distribution paid	21	-	-	-	-	(3,807)	-	-	-	(3,807)	-	(3,807)
Reversal of appropriations - net	21	-	-	-	(9,922)	9,922	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary	13	-	-	-	-	-	-	(570)	-	(570)	570	-
Purchase of non-controlling interest in a subsidiary	13	-	-	-	-	-	-	(509)	-	(509)	(1,412)	(1,921)
Transfer from non-controlling interests		-	-	-	-	(4,410)	-	-	-	(4,410)	4,410	-
Transactions with owners		-	-	-	(9,922)	121	-	(1,079)	-	(10,880)	3,400	(7,480)
<b>As of December 31, 2016</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P15,160</b>	<b>P26,851</b>	<b>(P1,345)</b>	<b>(P5,859)</b>	<b>(P10,000)</b>	<b>P84,491</b>	<b>P4,329</b>	<b>P88,820</b>

Forward



	Equity Attributable to Equity Holders of the Parent Company											
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves		Treasury Stock	Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves				
As of January 1, 2015		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P -	P97,332	P16,360	P113,692
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(3,041)	-	(3,041)	(707)	(3,748)
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(2,180)	-	-	(2,180)	3	(2,177)
Share in other comprehensive loss of an associate		-	-	-	-	-	(6)	-	-	(6)	-	(6)
Other comprehensive loss		-	-	-	-	-	(2,186)	(3,042)	-	(5,228)	(704)	(5,932)
Net income for the year		-	-	-	-	5,618	-	-	-	5,618	652	6,270
Total comprehensive income (loss) for the year		-	-	-	-	5,618	(2,186)	(3,042)	-	390	(52)	338
Cash dividends	21	-	-	-	-	(1,114)	-	-	-	(1,114)	(567)	(1,681)
Distribution paid	21	-	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Redemption of preferred shares	13, 21	-	-	-	-	-	-	-	(10,000)	(10,000)	(15,642)	(25,642)
Reversal of appropriations - net		-	-	-	(89)	89	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary		-	-	-	-	-	-	(372)	-	(372)	372	-
Transactions with owners		-	-	-	(89)	(4,632)	-	(372)	(10,000)	(15,093)	(15,837)	(30,930)
As of December 31, 2015		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100

Forward

	Equity Attributable to Equity Holders of the Parent Company										
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves		Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves			
As of January 1, 2014		P9,475	P9,764	P30,546	P25,171	P17,487	P2,242	(P721)	P93,964	P17,924	P111,888
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(23)	(23)	-	(23)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,405)	(1,405)	(70)	(1,475)
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(3,260)	-	(3,260)	-	(3,260)
Other comprehensive loss		-	-	-	-	-	(3,260)	(1,428)	(4,688)	(70)	(4,758)
Net income (loss) for the year		-	-	-	-	3,320	-	-	3,320	(311)	3,009
Total comprehensive income (loss) for the year		-	-	-	-	3,320	(3,260)	(1,428)	(1,368)	(381)	(1,749)
Cash dividends	21	-	-	-	-	(1,583)	-	-	(1,583)	-	(1,583)
Distribution paid	21	-	-	-	-	(3,580)	-	-	(3,580)	-	(3,580)
Issuance of preferred shares	21	10	9,889	-	-	-	-	-	9,899	-	9,899
Deductions from non-controlling interests and others		-	-	-	-	-	-	-	-	(1,183)	(1,183)
Transactions with owners		10	9,889	-	-	(5,163)	-	-	4,736	(1,183)	3,553
As of December 31, 2014		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P97,332	P16,360	P113,692

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
(Amounts in Million Pesos)

	<i>Note</i>	<b>2016</b>	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P14,378</b>	P9,925	P3,813
Adjustments for:				
Depreciation and amortization	25	<b>9,505</b>	6,272	6,033
Interest expense and other financing charges	26	<b>7,557</b>	5,533	5,528
Retirement benefits costs	30	<b>579</b>	419	91
Unrealized foreign exchange losses (gains) - net		<b>529</b>	87	(202)
Share in net income of an associate	10	<b>(66)</b>	(133)	(102)
Interest income	26	<b>(507)</b>	(686)	(844)
Other losses (gains)		<b>538</b>	304	(1,855)
Operating income before working capital changes		<b>32,513</b>	21,721	12,462
Changes in noncash assets, certain current liabilities and others	33	<b>4,550</b>	(5,484)	(6,560)
Cash generated from operations		<b>37,063</b>	16,237	5,902
Contribution to retirement fund	30	<b>(135)</b>	-	-
Interest paid		<b>(7,014)</b>	(8,020)	(8,061)
Income taxes paid		<b>(902)</b>	(513)	(498)
Interest received		<b>257</b>	764	1,920
Net cash flows provided by (used in) operating activities		<b>29,269</b>	8,468	(737)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	11	<b>(19,122)</b>	(13,474)	(12,569)
Proceeds from sale of property and equipment		<b>336</b>	106	154
Proceeds from sale of an investment property		<b>18</b>	-	-
Decrease (increase) in:				
Other receivables		-	(265)	1,008
Other noncurrent assets		<b>(536)</b>	(694)	7,212
Reductions from (additions to):				
Investment in shares of stock of an associate		-	(525)	(175)
Available-for-sale financial assets		<b>139</b>	260	34
Net cash flows used in investing activities		<b>(19,165)</b>	(14,592)	(4,336)

Forward

	<b>Note</b>	<b>2016</b>	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans		<b>P226,360</b>	P222,099	P360,309
Payments of:				
Loans		<b>(230,924)</b>	(256,732)	(320,949)
Cash dividends and distributions	21	<b>(5,537)</b>	(5,517)	(5,676)
Purchase of non-controlling interest in a subsidiary	13	<b>(1,921)</b>	-	-
Proceeds from issuance of Parent Company's preferred shares	21	-	-	9,899
Redemption of preferred shares	13, 21	-	(25,642)	-
Increase (decrease) in other noncurrent liabilities		<b>(3)</b>	(551)	1,582
Net cash flows provided by (used in) financing activities		<b>(12,025)</b>	(66,343)	45,165
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>372</b>	746	112
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>(1,549)</b>	(71,721)	40,204
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>18,881</b>	90,602	50,398
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>P17,332</b>	P18,881	P90,602

*See Notes to the Consolidated Financial Statements.*

## **PETRON CORPORATION AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED 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. The accompanying consolidated 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.

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

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Petron's Integrated Management Systems (IMS) - certified refinery processes crude oil into a full range of world-class petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, and petrochemicals. From the refinery, Petron moves its products mainly by sea to more than 30 terminals strategically located across the country. Through this network, Petron supplies fuels to its service stations and various essential industries such as power-generation, transportation, manufacturing, agriculture, etc. Petron also supplies jet fuel at key airports to international and domestic carriers.

With more than 2,200 service stations and various industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and autoLPG to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

Petron sources its fuel additives from its blending facility in Subic Bay. This gives it the capability to formulate unique additives for Philippine driving conditions. It also has a facility in Mariveles, Bataan where the refinery's propylene production is converted into higher-value polypropylene resin.

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. In March 2012, Petron increased its regional presence when it acquired an integrated refining, distribution and marketing business in Malaysia. Petron Malaysia includes an 88,000 barrel-per-day refinery, 10 terminals, 7 storage facilities and network of nearly 580 service stations.

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). As of December 31, 2016, the Parent Company's public float stood at 23.84%.

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

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

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## 2. Basis of Preparation

### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 14, 2017.

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting except for the following which are measured on an alternative basis at each reporting date:

<u>Items</u>	<u>Measurement Bases</u>
Derivative financial instruments at fair value through profit or loss	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale (AFS) financial assets	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

### Functional and Presentation Currency

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

### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2016	2015	
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	<b>100.00</b>	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	<b>100.00</b>	100.00	Philippines
Petron Freeport Corporation (PFC)	<b>100.00</b>	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	<b>100.00</b>	100.00	Singapore
Petron Marketing Corporation (PMC)	<b>100.00</b>	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	<b>40.00</b>	40.00	Philippines
Limay Energen Corporation (LEC)	<b>100.00</b>	100.00	Philippines
Petron Global Limited (PGL)	<b>100.00<sup>(a)</sup></b>	100.00 <sup>(a)</sup>	British Virgin Islands
Petron Finance (Labuan) Limited	<b>100.00</b>	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	<b>100.00</b>	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	<b>100.00<sup>(b)</sup></b>	47.25	Hong Kong

<sup>(a)</sup> Ownership represents 100% of PGL's common shares.

<sup>(b)</sup> In July 2016, ownership interest increased to 100% (Note 13a).

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retails outlets, restaurants, convenience stores and the like.

PSTPL's principal activities are those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease.

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.

PGL is a holding company incorporated in the British Virgin Islands.

POGM is a holding company incorporated under the laws of Mauritius. POGM owns an offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI).

As of December 31, 2016, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

Petron Malaysia is involved in the refining and marketing of petroleum products in Malaysia.

Petron Finance (Labuan) Limited is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a company incorporated in Hong Kong in March 2008. PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights. For NVRC and PAHL, the basis of consolidation is discussed in Note 4.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2016 and 2015, and PGL and PAHL in 2015.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.



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### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all the years presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Certain comparative amounts in the consolidated statements of income have been reclassified as a result of a change in the classification of certain accounts during the current year.

#### Adoption of Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to PFRS 11)*. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38)*. The amendments to PAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments to PAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

- *Annual Improvements to PFRS 2012 - 2014 Cycle*. This cycle of improvements contains amendments to four standards. The following are the said improvements or amendments to PFRS, none of which has a significant impact on the Group's consolidated financial statements.
  - *Changes in method for disposal (Amendment to PFRS 5)*. PFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* is amended to clarify that:
    - if an entity changes the method of disposal of an asset (or disposal group) - i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and
    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

- *'Continuing Involvement' for Servicing Contracts (Amendments to PFRS 7)*. PFRS 7 *Financial Instruments: Disclosures* is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.
- *Discount rate in a regional market sharing the same currency - e.g. the Eurozone (Amendment to PAS 19)*. The amendment to PAS 19 *Employee Benefits* clarifies that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1 *Presentation of Financial Statements*. The amendments clarify that:
  - Information should not be obscured by aggregating or by providing immaterial information.
  - Materiality considerations apply to all parts of the consolidated financial statements, even when a standard requires a specific disclosure.
  - The list of line items to be presented in the consolidated statements of financial position, consolidated statements of income and consolidated statements of comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.
  - An entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

#### New or Revised Standards and Amendments to Standards Not Yet Adopted

A number of new or revised standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

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

#### *To be Adopted 2017*

- *Disclosure initiative (Amendments to PAS 7)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

- *Annual Improvements to PFRS 2014 – 2016 Cycle.* This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRS effective for annual periods beginning on or after January 1, 2017, none of which has a significant effect on the consolidated financial statements of the Group:
  - *Clarification of the scope of the standard (Amendments to PFRS 12).* The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

*To be Adopted 2018*

- *PFRS 9 Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

- PFRS 15 *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently assessing the potential impact of PFRS 15 and plans to adopt this new standard on revenues on the required effective date.

- *Transfers of Investment Property (Amendments to PAS 40)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- Philippine Interpretation IFRIC-22 *Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### *To be Adopted 2019*

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

#### *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*

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 and PAS 28)*. The amendments address an inconsistency between the requirements in PFRS 10 and in PAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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

#### Financial Assets and Financial Liabilities

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

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

*Classification of Financial Instruments.* The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, financial assets at FVPL and loans and receivables. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

#### Financial Assets

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition at FVPL when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group uses commodity price swaps to protect its margin on petroleum products from potential price volatility of international crude and product prices. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations. In addition, the Parent Company has identified and bifurcated embedded foreign currency derivatives from certain non-financial contracts.

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts, commodity price swaps and embedded derivatives are recognized under the caption "Marked-to-market gains - net" included as part of "Other income (expenses) - net" account in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized under the caption "Inventories" included as part of "Cost of goods sold" account in the consolidated statements of income.

The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current exchange rates for contracts with similar maturity profiles. The fair values of commodity swaps are determined based on quotes obtained from counterparty banks.

The Group's derivative assets and proprietary membership shares are classified under this category.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, trade and other receivables, due from related parties, long-term receivables and noncurrent deposits are included under this category.

*HTM Investments.* HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial recognition, these investments are measured at amortized cost using the effective interest method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.



The Group has no investments accounted for under this category as of December 31, 2016 and 2015.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities included under "Available-for-sale financial assets" account are classified under this category.

#### Financial Liabilities

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

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

The Group's derivative liabilities are classified under this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

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

#### Debt Issue Costs

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

### Derivative Financial Instruments

*Freestanding Derivatives.* For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

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 documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group has no derivatives that qualify for hedge accounting as of December 31, 2016 and 2015. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

*Embedded Derivatives.* The Group assesses whether embedded derivatives are required to be separated from 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 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 at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

### 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 rights 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.

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

#### Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether objective impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted using its historical effective rate of return on the asset.

#### 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.

### Offsetting Financial Instruments

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

### Fair Value Measurements

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the 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 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 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 the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy, as explained above.

### Inventories

Inventories are carried at the lower of cost or net realizable value (NRV). For petroleum products and crude oil, the NRV is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, Petron uses the first-in, first-out method in costing petroleum products (except lubes and greases and solvents), crude oil, and other products. Cost is determined using the moving-average method in costing lubes and greases, solvents, polypropylene, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

#### Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair values and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

*Goodwill in a Business Combination.* Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

*Intangible Assets Acquired in a Business Combination.* The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

#### Transactions under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

#### Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

#### Investment in Shares of Stock of an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The Group's investment in shares of stock of an associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in the profit or loss of the associate is recognized as "Share in net income of an associate" account in the Group's consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Share in net income of an associate" account in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the investment in shares of stock of an associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### Interest in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.



The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other income (expenses) - others" account. As of December 31, 2016, the Group has capital commitments amounting to P2 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

Results of operations as well as financial position balances of PDSI and TBSB were less than 1% of the consolidated amounts and as such are assessed as not material; hence, not separately disclosed.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, depreciation and amortization, which commences when the assets are available for its intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	5 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For income tax reporting purposes, depreciation and amortization are computed using the double-declining balance method.

The remaining useful lives and depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such useful lives and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

#### Investment Property

Investment property consists of land and building held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and the cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the investment property at the time of its acquisition or construction. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

For financial reporting purposes, depreciation of building is computed on a straight-line basis over the estimated useful lives of the assets of 20 years. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The useful lives and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization periods and amortization method used for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Software	5 - 10
Franchise fee	3 - 10

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

As of December 31, 2016 and 2015, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

The amount of intangible assets is included as part of "Other noncurrent assets - net" in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of "Selling and administrative expenses" account in the consolidated statements of income.

#### Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, investment property, intangible assets with finite useful lives, investment in shares of stock of an associate and interest in joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal 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, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Cylinder Deposits

The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

The Parent Company maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in profit or loss.

### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

### Capital Stock

*Common Shares.* Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

*Preferred Shares.* Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

### Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

### Treasury Stock

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

#### Undated Subordinated Capital Securities (USCS)

USCS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

#### Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Rent.* Revenue from operating leases (net of any incentives given to the lessees) is recognized on a straight-line basis over the lease term.

*Customer Loyalty Programme.* Revenue is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

*Other Income.* Other income is recognized when there is incidental economic benefit, other than the usual business operations, that will flow to the Group and that can be measured reliably.

#### Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

#### Research and Development Costs

Research costs are expensed as incurred. Product development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### Employee Benefits

*Short-term Employee Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits Costs and Other Employee Benefit Costs.* Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in other comprehensive income under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Reserve for retirement plan" and are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.



The Group also provides other benefits to its employees as follows:

*Corporate Performance Incentive Program.* The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

*Savings Plan.* The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

*Land/Home Ownership Plan.* The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

#### Foreign Currency

*Foreign Currency Translations.* Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

*Foreign Operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the “Other reserves” account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the “Other reserves” account in the consolidated statements of changes in equity.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax.* Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT)*. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Trade and other payables” accounts in the consolidated statements of financial position.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

#### Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive debt or equity instruments.

#### Operating Segments

The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 37 to the consolidated financial statements. The Chief Executive Officer (the “chief operating decision maker”) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm’s length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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#### **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Determining Functional Currency.* The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,139, P1,131 and P1,145 in 2016, 2015 and 2014, respectively (Note 23).

Rent expense recognized in the consolidated statements of income amounted to P1,293, P1,295 and P1,248 in 2016, 2015 and 2014, respectively (Note 23).

*Evaluating Control over its Investees.* Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, before the Parent Company acquired 100% equity interest in PAHL in 2016, management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Parent Company has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Parent Company controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Parent Company assessed it has control over PAHL, even prior to the Parent Company's acquisition of 100% equity interest in 2016, by virtue of the extent of the Parent Company's participation in the BOD and management of PAHL, of which the Parent Company established it has: (i) power over PAHL, (ii) it is exposed and has rights to variable returns from its involvement with PAHL, and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Parent Company considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2016, the Parent Company owns 100% of PAHL.

*Classifying Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Determining Fair Values of Financial Instruments.* Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from a variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

*Distinction between Property, Plant and Equipment and Investment Property.* The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determining Impairment Indicators of Other Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment in shares of stock of an associate, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

*Determining whether an Arrangement Contains a Lease.* The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change of contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Taxes.* Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2016, 2015 and 2014, the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates and Development Corporation (PEDC), as they opted to apply OSD.

*Contingencies.* The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Allowance for Impairment Losses on Trade and Other Receivables.* Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the National Sales Division, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances including but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Impairment losses on trade and other receivables amounted to P68, P154 and P2 in 2016, 2015 and 2014, respectively (Notes 8 and 23). Receivables written-off amounted to P97 in 2016 and P22 in 2015 (Note 8). In 2015, the Group reversed previously recognized impairment losses amounting to P7 while no such reversal was recognized in 2016 (Note 8).

The carrying amount of receivables amounted to P31,548 and P30,749 as of December 31, 2016 and 2015, respectively (Note 8).

*Net Realizable Values of Inventories.* In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P44,147 and P30,823 as of the end of 2016 and 2015, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized an inventory write-down amounting to nil, P225 and P798 in 2016, 2015 and 2014, respectively (Note 9).



*Allowance for Inventory Obsolescence.* The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2016, 2015 and 2014, the Group provided an additional allowance for inventory obsolescence amounting to P327, P36 and P14, respectively (Note 9).

*Fair Values of Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property.* The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P75,258 and P67,715 as of December 31, 2016 and 2015, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P176,604 and P161,597 as of December 31, 2016 and 2015, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P91 and P112 as of December 31, 2016 and 2015, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P208 and P232 as of December 31, 2016 and 2015, respectively (Note 14).

*Fair Value of Investment Property.* The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment property amounted to P151 and P156 as of December 31, 2016 and 2015, respectively (Note 12).

*Impairment of Goodwill.* The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on fair value less costs to sell and value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2016 and 2015 and discount rates of 5.8% and 7.0% in 2016 and 2015, respectively (Note 13).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the projected sales volume, selling price and improvement in the gross profit margin, and discount rate.

No impairment losses were recognized in 2016, 2015 and 2014 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2016 and 2015.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other income (expenses) - net" in the consolidated statements of income (Note 13).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P194 and P211 as of December 31, 2016 and 2015, respectively (Note 27).

*Present Value of Defined Benefit Retirement Obligation.* The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for retirement benefits liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

Retirement benefits costs recognized in profit or loss amounted to P579, P419 and P91 in 2016, 2015 and 2014, respectively. Remeasurement losses (gains) of the net defined retirement obligation amounted to (P2,647), P3,112 and P4,656 in 2016, 2015 and 2014, respectively. The retirement benefits liability amounted to P3,392 and P5,591 as of December 31, 2016 and 2015, respectively (Note 30).

*Asset Retirement Obligation (ARO).* The Group has an ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.02% to 8.45% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,324 and P1,809 as of December 31, 2016 and 2015, respectively (Note 19).

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## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>2016</b>	2015
Cash on hand		<b>P1,794</b>	P2,029
Cash in banks		<b>5,423</b>	5,153
Short-term placements		<b>10,115</b>	11,699
	<i>34, 35</i>	<b>P17,332</b>	P18,881

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Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn annual interest (Note 26) at the respective short-term placement rates ranging from 0.03% to 4.50% in 2016, 0.05% to 5.00% in 2015 and 0.01% to 3.50% in 2014.

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## 6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	<i>Note</i>	<b>2016</b>	2015
Proprietary membership shares	<i>34, 35</i>	<b>P157</b>	P147
Derivative assets	<i>34, 35</i>	<b>64</b>	362
		<b>P221</b>	P509

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The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 35).

Changes in fair value recognized in 2016, 2015 and 2014 amounted to P10, P11 and P19, respectively (Note 26).

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## 7. Available-for-Sale Financial Assets

This account consists of:

	<i>Note</i>	<b>2016</b>	2015
Government securities		<b>P141</b>	P71
Other debt securities		<b>338</b>	550
	<i>34, 35</i>	<b>479</b>	621
Less current portion		<b>71</b>	233
		<b>P408</b>	P388

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Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 2.13% to 7.75% in 2016 and from 4.47% to 8.88% in 2015 (Note 26).

Ovincor's outstanding corporate bond is maintained at the Bank of N. T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 26).

The breakdown of investments by contractual maturity dates as of December 31 follows:

	<b>Note</b>	<b>2016</b>	2015
Due in one year or less		<b>P71</b>	P233
Due after one year through six years		<b>408</b>	388
	<b>34, 35</b>	<b>P479</b>	P621

The reconciliation of the carrying amounts of AFS financial assets as of December 31 follows:

	<b>2016</b>	2015
Balance at beginning of year	<b>P621</b>	P881
Additions	<b>90</b>	163
Disposals	<b>(232)</b>	(428)
Amortization of premium	<b>(7)</b>	(15)
Fair value loss	<b>(2)</b>	(1)
Currency translation adjustment	<b>9</b>	21
Balance at end of year	<b>P479</b>	P621

## 8. Trade and Other Receivables

This account consists of:

	<b>Note</b>	<b>2016</b>	2015
Trade	34	<b>P18,338</b>	P17,424
Related parties - trade	28, 34	<b>1,001</b>	877
Allowance for impairment loss on trade receivables		<b>(807)</b>	(824)
		<b>18,532</b>	17,477
Government		<b>7,441</b>	7,062
Related parties - non-trade	28	<b>5,127</b>	4,913
Others		<b>787</b>	1,605
Allowance for impairment loss on non-trade receivables		<b>(339)</b>	(308)
		<b>13,016</b>	13,272
	<b>34, 35</b>	<b>P31,548</b>	P30,749

Trade receivables are noninterest-bearing and are generally on a 45-day term.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P1,954 and P2,333 as of December 31, 2016 and 2015, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of an advance made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2016 and 2015 is shown below:

	<b>Note</b>	<b>2016</b>	2015
Balance at beginning of year		<b>P1,230</b>	P1,109
Additions	23	<b>68</b>	154
Write off	4	<b>(97)</b>	(22)
Currency translation adjustment		<b>26</b>	(4)
Reversal of impairment losses	4	<b>-</b>	(7)
Balance at end of year		<b>1,227</b>	1,230
Less noncurrent portion for long-term receivables	14	<b>81</b>	98
		<b>P1,146</b>	P1,132

As of December 31, 2016 and 2015, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	<b>Past Due but not Impaired</b>				<b>Total</b>
	<b>Within 30 days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>	
<b>December 31, 2016</b>					
Reseller	<b>P107</b>	<b>P8</b>	<b>P2</b>	<b>P10</b>	<b>P127</b>
Lubes	<b>1</b>	-	<b>6</b>	-	<b>7</b>
Gasul	<b>57</b>	<b>2</b>	<b>2</b>	-	<b>61</b>
Industrial	<b>15</b>	<b>9</b>	<b>95</b>	<b>263</b>	<b>382</b>
Others	<b>88</b>	<b>35</b>	<b>23</b>	<b>131</b>	<b>277</b>
	<b>P268</b>	<b>P54</b>	<b>P128</b>	<b>P404</b>	<b>P854</b>
<b>December 31, 2015</b>					
Reseller	P110	P7	P -	P -	P117
Lubes	2	-	6	-	8
Gasul	41	2	5	-	48
Industrial	19	6	111	231	367
Others	84	17	58	147	306
	P256	P32	P180	P378	P846

No allowance for impairment losses is necessary as regard to these past due but unimpaired trade receivables based on past collection experience. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

## 9. Inventories

This account consists of:

	2016	2015
Crude oil and others	<b>P24,474</b>	P13,383
Petroleum	<b>13,418</b>	11,661
Lubes, greases and aftermarket specialties	<b>2,754</b>	3,325
Materials and supplies	<b>3,501</b>	2,454
	<b>P44,147</b>	P30,823

The cost of these inventories amounted to P44,936 and P31,507 as of December 31, 2016 and 2015, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P1,906 and P2,798 as of December 31, 2016 and 2015, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P283,169, P311,526 and P451,318 in 2016, 2015 and 2014, respectively (Note 22).

Research and development costs (Note 23) on these products constituted the expenses incurred for internal projects in 2016 and 2015.

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2016 and 2015 follow:

	Note	2016	2015
Balance at beginning of year		<b>P684</b>	P1,224
Provisions due to:			
Write-downs	4	-	225
Obsolescence	4	<b>327</b>	36
Reversals		<b>(223)</b>	(798)
Currency translation adjustment		<b>1</b>	(3)
Balance at end of year		<b>P789</b>	P684

The provisions and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to inventories sold during the year.

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**10. Investment in Shares of Stock of an Associate**

This account consists of:

	2016	2015
<b>Acquisition Cost</b>		
Balance at beginning of year	<b>P1,405</b>	P880
Additions	-	525
Balance at end of year	<b>1,405</b>	1,405
<b>Share in Total Comprehensive Income</b>		
Balance at beginning of year	<b>409</b>	282
Share in net income during the year	<b>66</b>	133
Share in other comprehensive income (loss)	<b>3</b>	(6)
Balance at end of year	<b>478</b>	409
	<b>P1,883</b>	P1,814

Investment in shares of stock of an associate pertains to investment in Manila North Harbour Port Inc (MNHPI), a company incorporated in the Philippines.

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

In December 2014 and February 2015, the Parent Company advanced P175 and P525, respectively, as deposit for future subscription of MNHPI's shares.

Following the approval of the increase in the authorized capital stock of MNHPI by the SEC, Petron was issued stock certificate for 7,000,000 shares in December 2015, representing 35% of the increase in the authorized capital stock of MNHPI.

The cost of investment in MNHPI amounted to P1,405 as of December 31, 2016 and 2015.



Following are the condensed financial information of MNHPI as of and for the years ended December 31, 2016 and 2015:

	2016	2015
Percentage of ownership	35%	35%
Current assets	P2,698	P1,654
Noncurrent assets	11,349	10,743
Current liabilities	(5,574)	(2,088)
Noncurrent liabilities	(4,102)	(6,135)
Net assets	P4,371	P4,174
Sales	P2,984	P2,605
Net income	P188	P380
Other comprehensive income (loss)	9	(17)
Total comprehensive income	P197	P363
Share in net assets	P1,530	P1,461
Goodwill	353	353
Carrying amount of investment in shares of stock of an associate	P1,883	P1,814

## 11. Property, Plant and Equipment

The movements and balances as of and for the years ended December 31 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
<b>Cost</b>							
January 1, 2015	P28,330	P50,532	P16,142	P4,328	P14,275	P104,729	P218,336
Additions	263	592	410	574	211	14,338	16,388
Disposals/reclassifications	726	223	707	(100)	(133)	(2,138)	(715)
Currency translation adjustment	(1,071)	(1,562)	(1,029)	(99)	(1,079)	(344)	(5,184)
December 31, 2015	28,248	49,785	16,230	4,703	13,274	116,585	228,825
Additions	289	18,065	363	293	467	3,749	23,226
Disposals/reclassifications	34	94,310	(494)	(348)	186	(95,033)	(1,345)
Currency translation adjustment	332	103	73	4	77	18	607
<b>December 31, 2016</b>	<b>28,903</b>	<b>162,263</b>	<b>16,172</b>	<b>4,652</b>	<b>14,004</b>	<b>25,319</b>	<b>251,313</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2015	16,766	32,218	10,471	3,135	2,096	-	64,686
Additions	1,341	1,730	1,287	910	96	-	5,364
Disposals/reclassifications	(39)	(109)	(53)	(85)	-	-	(286)
Currency translation adjustment	(643)	(751)	(565)	(512)	(65)	-	(2,536)
December 31, 2015	17,425	33,088	11,140	3,448	2,127	-	67,228
Additions	1,255	5,010	1,192	655	134	-	8,246
Disposals/reclassifications	(85)	(20)	(369)	(477)	(61)	-	(1,012)
Currency translation adjustment	143	173	24	(97)	4	-	247
<b>December 31, 2016</b>	<b>18,738</b>	<b>38,251</b>	<b>11,987</b>	<b>3,529</b>	<b>2,204</b>	<b>-</b>	<b>74,709</b>
<b>Carrying Amount</b>							
December 31, 2015	P10,823	P16,697	P5,090	P1,255	P11,147	P116,585	P161,597
<b>December 31, 2016</b>	<b>P10,165</b>	<b>P124,012</b>	<b>P4,185</b>	<b>P1,123</b>	<b>P11,800</b>	<b>P25,319</b>	<b>P176,604</b>

No interest was capitalized in 2016. Interest capitalized in 2015 amounted to P2,914 and capitalization rate used for borrowings was at 6.77% (Note 18).

No impairment loss was required to be recognized in 2016, 2015 and 2014.

### Capital Commitments

As of December 31, 2016, the Group has outstanding commitments to acquire property, plant and equipment amounting to P7,756.

## **12. Investment Property**

The movements and balances as of and for the years ended December 31 follow:

	<b>Land</b>	<b>Building</b>	<b>Total</b>
<b>Cost</b>			
January 1 and December 31, 2015	P100	P25	P125
Disposal	(20)	-	(20)
<b>December 31, 2016</b>	<b>80</b>	<b>25</b>	<b>105</b>
<b>Accumulated Depreciation</b>			
January 1, 2015	-	12	12
Depreciation	-	1	1
December 31, 2015	-	13	13
Depreciation	-	1	1
<b>December 31, 2016</b>	<b>-</b>	<b>14</b>	<b>14</b>
<b>Carrying Amount</b>			
December 31, 2015	P100	P12	P112
<b>December 31, 2016</b>	<b>P80</b>	<b>P11</b>	<b>P91</b>

The Group's investment property pertains to a property located in Tagaytay and parcels of land in various locations.

Estimated fair value of the Tagaytay property amounted to P44 as of December 31, 2016 and P22 as of December 31, 2015 based on the appraisal made in February 2017 and in 2012, respectively. The fair value was calculated using market approach.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2016 and 2015, the aggregate fair market values of the properties amounting to P107 and P134, respectively, determined by independent appraisers in 2013 using market approach, is higher than their carrying amount, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

The fair market value of investment property has been categorized as Level 3 in the fair value hierarchy.

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### 13. Investment in Shares of Stock of Subsidiaries and Goodwill

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

a. *PAHL*

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of 100% equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013.

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US\$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$27,644,540 which effectively increased the Parent Company's ownership from 47.25% to 50.26%.

On July 25, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

b. *PGL*

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US\$)	Total (in US\$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US\$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2016 and 2015, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

### Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cost</b>			
Balance at beginning of year		<b>P7,694</b>	P8,921
Translation adjustments		<b>84</b>	(1,227)
Balance at end of year		<b>7,778</b>	7,694
Less impairment loss during the year	26	<b>298</b>	-
<b>Carrying Amount</b>		<b>P7,480</b>	P7,694

### Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2016 and 2015, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

For the goodwill allocated to the POGI Group CGU, the recoverable amount of goodwill has been determined based on value in use (VIU). The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 3.0% in 2016 and 2015 and discount rates of 5.8% and 7.0% in 2016 and 2015, respectively. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (i.e., historical data). The discount rate is based on the weighted average cost of capital (WACC) using the Capital Asset Pricing Model (CAPM) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium.

The financial projection used in the VIU calculation is highly dependent on the following underlying key drivers of growth in profitability:

- *Sales Volume.* Majority of the sales volume is generated from the domestic market of the CGU. The growth in projected sales volume would mostly contributed from retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. Commercial sales refer to sales to industrial, wholesale, aviation and LPG accounts.
- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2017, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through overall growth in sales volume along with better sales mix and better cost management.

For purposes of growth rate sensitivity, a growth rate scenario of 2%, 3% and 4% is applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2016, 2015 and 2014 in relation to the goodwill arising from the acquisition of Petron Malaysia.

Impairment of Goodwill from PAHL

For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other income (expenses) - net" in the consolidated statements of income. No impairment losses were recognized in 2015 and 2014.

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2016				December 31, 2015			
	NVRC	PMRMB	PAHL	PGL	NVRC	PMRMB	PAHL	PGL
<b>Non-controlling Interests Percentage</b>	<b>60.00%</b>	<b>26.60%</b>	<b>0.00%</b>	<b>0.00%</b>	60.00%	26.60%	52.75%	0.00%
<b>Carrying amount of non-controlling interest</b>	<b>P474</b>	<b>P3,855</b>	<b>P -</b>	<b>P -</b>	P417	P3,280	P898	(P4,030)
Current assets	<b>P308</b>	<b>P16,744</b>	<b>P94</b>	<b>P -</b>	P321	P11,836	P261	P -
Noncurrent assets	<b>5,296</b>	<b>12,601</b>	<b>2,753</b>	<b>-</b>	4,861	13,060	2,740	-
Current liabilities	<b>(205)</b>	<b>(13,946)</b>	<b>(9)</b>	<b>-</b>	(3,970)	(10,994)	(1,298)	-
Noncurrent liabilities	<b>(4,135)</b>	<b>(2,492)</b>	<b>-</b>	<b>-</b>	(43)	(3,141)	-	-
<b>Net assets</b>	<b>P1,264</b>	<b>P12,907</b>	<b>P2,838</b>	<b>P -</b>	P1,169	P10,761	P1,703	P -
<b>Net income (loss) attributable to non-controlling interests</b>	<b>P57</b>	<b>P725</b>	<b>(P60)</b>	<b>P -</b>	P58	P689	(P95)	P -
<b>Other comprehensive income (loss) attributable to non-controlling interests</b>	<b>P -</b>	<b>P28</b>	<b>P4</b>	<b>(P296)</b>	P -	(P488)	(P4)	(P212)
<b>Sales</b>	<b>P593</b>	<b>P87,124</b>	<b>P -</b>	<b>P -</b>	P542	P95,075	P -	P -
Net income (loss)	<b>P96</b>	<b>P2,727</b>	<b>(P314)</b>	<b>P -</b>	P97	P2,590	(P179)	(P1)
Other comprehensive income (loss)	<b>-</b>	<b>105</b>	<b>158</b>	<b>-</b>	-	(1,835)	73	(7)
<b>Total comprehensive income (loss)</b>	<b>P96</b>	<b>P2,832</b>	<b>(P156)</b>	<b>P -</b>	P97	P755	(P106)	(P8)
Cash flows provided by (used in) operating activities	<b>P222</b>	<b>P3,881</b>	<b>(P16)</b>	<b>P -</b>	P81	P3,956	(P558)	(P1)
Cash flows provided by (used in) investing activities	<b>(429)</b>	<b>(525)</b>	<b>-</b>	<b>-</b>	33	(1,218)	-	16,471
Cash flows provided by (used in) financing activities	<b>128</b>	<b>(3,221)</b>	<b>33</b>	<b>-</b>	-	(4,879)	507	(16,499)
Effects of exchange rate changes on cash and cash equivalents	<b>-</b>	<b>2</b>	<b>3</b>	<b>-</b>	-	(1)	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(P79)</b>	<b>P137</b>	<b>P20</b>	<b>P -</b>	P114	(P2,142)	(P51)	(P29)

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#### 14. Other Assets

This account consists of:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Current:			
Prepaid taxes		<b>P24,478</b>	P19,586
Input VAT		<b>6,097</b>	12,093
Prepaid expenses	28	<b>1,518</b>	2,282
Special-purpose fund		<b>140</b>	134
Tax recoverable		-	100
Others		<b>266</b>	335
		<b>P32,499</b>	P34,530
Noncurrent:			
Input VAT		<b>P2,229</b>	P79
Prepaid rent		<b>2,211</b>	2,228
Catalyst - net		<b>833</b>	947
Long-term receivables - net	34, 35	<b>205</b>	189
Noncurrent deposits	34, 35	<b>81</b>	82
Due from related parties	28, 34, 35	-	1,816
Others - net		<b>856</b>	1,385
		<b>P6,415</b>	P6,726

The "Noncurrent assets - others" account includes software, marketing assistance to dealers, other prepayments, franchise fees and other intangible assets amounting to P850 and P1,112 in 2016 and 2015, respectively, net of amortization of software, marketing assistance to dealers, franchise fees and other intangibles amounting to P214, P285 and P295 in 2016, 2015 and 2014, respectively. The amortization of prepaid rent amounted to P207, P189 and P243 in 2016, 2015 and 2014, respectively. Amortization of software, marketing assistance to dealers, franchise fees, other intangibles, prepaid rent and other prepayments is included as part of "Selling and administrative - depreciation and amortization" account in the consolidated statements of income (Notes 23 and 25). Amortization of catalyst and other prepayments amounting to P837 and P433 in 2016 and 2015, respectively is included as part of "Cost of goods sold - depreciation and amortization" account in the consolidated statements of income (Notes 22 and 25).

Included in "Due from related parties" was an advance made by the Parent Company to PCERP which was fully collected on July 26, 2016 (Notes 28 and 30).

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#### 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 7 to 120 days and annual interest ranging from 2.85% to 6.22% in 2016 and 2.75% to 6.20% in 2015 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P2,323, P3,284 and P3,302 in 2016, 2015 and 2014, respectively (Note 26).

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## 16. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are noninterest-bearing and generally settled on a 30-day term. Details of the supply agreement in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

Liabilities for crude oil and petroleum products are payable to the following:

	<i>Note</i>	<b>2016</b>	2015
Third parties		<b>P29,563</b>	P16,271
Related parties	28	<b>403</b>	-
	34, 35	<b>P29,966</b>	P16,271

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## 17. Trade and Other Payables

This account consists of:

	<i>Note</i>	<b>2016</b>	2015
Trade		<b>P4,545</b>	P2,883
Specific taxes and other taxes payable		<b>2,352</b>	1,859
Accrued payroll		<b>119</b>	115
Due to related parties	28	<b>5,474</b>	1,719
Accrued interest		<b>713</b>	629
Accrued rent		<b>892</b>	938
Dividends payable		<b>218</b>	195
Insurance liabilities		<b>66</b>	119
Retention payable		<b>336</b>	300
Deferred liability on customer loyalty programme		<b>750</b>	400
Retirement benefits liability	30	<b>77</b>	82
Others		<b>619</b>	108
	34, 35	<b>P16,161</b>	P9,347

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Trade payables are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are generally settled on a 30-day term.

Others include provisions, accruals of selling and administrative expenses, and advances which are normally settled within a year.



## 18. Long-term Debt

This account consists of:

	<i>Note</i>	2016	2015
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Fixed rate corporate notes of 7% due in 2017	<i>(a)</i>	<b>P19,964</b>	P19,926
Fixed rate corporate notes of 6.3212% due in 2018 and 7.1827% due in 2021	<i>(b)</i>	<b>3,401</b>	3,433
Term loan of 5.4583% plus GRT due in 2022	<i>(f)</i>	<b>4,981</b>	4,976
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	<i>(g)</i>	<b>19,801</b>	-
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - MYR100 million	<i>(c)</i>	<b>832</b>	1,089
Floating rate dollar loan - MYR50 million	<i>(c)</i>	-	545
Floating rate dollar loan - MYR100 million	<i>(c)</i>	<b>920</b>	1,090
Floating rate dollar loan - MYR50 million	<i>(c)</i>	<b>506</b>	545
Floating rate dollar loan - US\$475 million	<i>(d)</i>	<b>6,556</b>	15,639
Floating rate dollar loan - US\$550 million	<i>(e)</i>	<b>22,891</b>	25,177
	<i>34, 35</i>	<b>79,852</b>	72,420
Less current portion		<b>20,911</b>	694
		<b>P58,941</b>	P71,726

- a. On November 10, 2010, the Parent Company issued P20,000 Peso-denominated Notes, payable in US dollar. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year. The notes will mature on November 10, 2017. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment.
- b. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.
- c. On March 17, 2014, PMRMB availed of Malaysian ringgit (MYR) 100 million (P1,374) loan and on March 31, 2014, PFISB availed of MYR50 million (P687) loan. Additionally, on June 27, 2014, PMRMB availed of MYR 100 million (P1,359) and on July 25, 2014, PFISB availed of five-year MYR 50 million (P685) loan. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) +1.5%. On April 29, 2016, PFISB fully prepaid the MYR50 million (P687) loan which was availed on March 31, 2014.

- d. On May 14, 2014, the Parent Company signed and executed a US\$300 million term loan facility. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. Proceeds were used to refinance existing debt and for general corporate purposes. Drawdowns and their respective amounts were made on the following dates: May 27, 2014 (US\$70 million); June 4, 2014 (US\$118 million); June 20, 2014 (US\$70 million) and July 2, 2014 (US\$42 million). On September 29, 2014, the Parent Company completed the syndication of the facility, raising the facility amount to US\$475 million. Drawdowns related to the additional US\$175 million were made as follows: October 24, 2014 (US\$70 million) and November 6, 2014 (US\$105 million). Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019. In 2015 and 2016, the Parent Company made partial payments on the following dates: September 29, 2015 (US\$65 million); November 27, 2015 (US\$70 million); March 31, 2016 (US\$40 million); and October 28, 2016 (US\$165 million).
- e. On July 29, 2015, the Parent Company drew US\$550 million from a US\$550 million refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of about US\$206 million and US\$345 million under the US\$480 million term loan facility and the US\$485 million term loan facility, respectively. On November 11, 2015, the Parent Company completed the syndication of the new facility with 29 banks. On October 28, 2016, the Parent Company made partial payment amounting to US\$80 million.
- f. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% plus GRT. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements.
- g. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of bonds were used to partially settle the US\$475 million and US\$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements.

The above-mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements and restrictions on guarantees.

As of December 31, 2016 and 2015, the Parent Company has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P4,155, P1,013 and P973 for the years ended 2016, 2015 and 2014, respectively (Note 26). Capitalized interest in 2015 amounted to P2,914 and nil in 2016 (Note 11).

Movements in debt issue costs follow:

	<b>2016</b>	2015
Balance at beginning of year	<b>P1,208</b>	P1,073
Additions	<b>205</b>	610
Amortization for the year	<b>(498)</b>	(475)
Balance at end of year	<b>P915</b>	P1,208

#### Repayment Schedule

As of December 31, 2016 and 2015, the annual maturities of long-term debt are as follows:

#### 2016

	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2016	<b>P20,956</b>	<b>P45</b>	<b>P20,911</b>
2017	<b>13,679</b>	<b>519</b>	<b>13,160</b>
2018	<b>12,642</b>	<b>116</b>	<b>12,526</b>
2019	<b>8,842</b>	<b>30</b>	<b>8,812</b>
2020	<b>16,648</b>	<b>134</b>	<b>16,514</b>
2021 and beyond	<b>8,000</b>	<b>71</b>	<b>7,929</b>
	<b>P80,767</b>	<b>P915</b>	<b>P79,852</b>

#### 2015

	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2016	P708	P14	P694
2017	31,217	669	30,548
2018	16,556	322	16,234
2019	12,075	169	11,906
2020	8,424	29	8,395
2021 and beyond	4,648	5	4,643
	P73,628	P1,208	P72,420

### **19. Asset Retirement Obligation**

Movements in the ARO are as follows:

	<b>Note</b>	<b>2016</b>	2015
Balance at beginning of year		<b>P1,809</b>	P1,659
Additions		<b>129</b>	310
Effect of change in discount rate		<b>278</b>	(262)
Accretion for the year	22, 26	<b>141</b>	156
Settlement		<b>(33)</b>	(36)
Effect of change in lease term		-	(18)
Balance at end of year		<b>P2,324</b>	P1,809

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**20. Other Noncurrent Liabilities**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Cash bonds		<b>P387</b>	P382
Cylinder deposits		<b>499</b>	454
Others		<b>73</b>	70
	<b>34, 35</b>	<b>P959</b>	P906

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“Others” account includes liability to a contractor and supplier.

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**21. Equity****a. Capital Stock****Common Shares**

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2016 and 2015, the Parent Company had 145,602 and 146,907 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

**Preferred Shares**

On January 21, 2010, the SEC approved the Parent Company’s amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company’s offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting, preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the “2010 Preferred Shares”) to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company’s BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company’s public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the “Series 2 Preferred Shares”) at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the “Series 2A Preferred Shares”) and (ii) 2,877,680 Series 2B preferred shares (the “Series 2B Preferred Shares”). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2016, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2016 and 2015 are as follows:

	<b>2016</b>	2015
Series 2A Preferred Shares	<b>49</b>	41
Series 2B Preferred Shares	<b>31</b>	31
	<b>80</b>	72

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2015 and 2016, the Parent Company's BOD approved cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
Common	P0.05000	March 17, 2015	April 1, 2015	April 16, 2015
Series 2A	15.75000	March 17, 2015	April 17, 2015	May 4, 2015
Series 2B	17.14575	March 17, 2015	April 17, 2015	May 4, 2015
Series 2A	15.75000	March 17, 2015	July 20, 2015	August 3, 2015
Series 2B	17.14575	March 17, 2015	July 20, 2015	August 3, 2015
Series 2A	15.75000	August 10, 2015	October 16, 2015	November 3, 2015
Series 2B	17.14575	August 10, 2015	October 16, 2015	November 3, 2015
Series 2A	15.75000	August 10, 2015	January 18, 2016	February 3, 2016
Series 2B	17.14575	August 10, 2015	January 18, 2016	February 3, 2016
Common	0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017

Total cash dividends declared amounted to P1,584, P1,114 and P1,583 in 2016, 2015 and 2014, respectively.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, LLCDC's BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On December 20, 2016, NVRC's BOD approved an additional appropriation of retained earnings amounting to P200 (P120 - attributable to non-controlling interest) for the acquisition of parcels of land in 2017. Appropriation of the same amount was approved on September 29, 2015 for programmed lot acquisitions.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2016 and 2015 amounted to P15,160 and P25,082, respectively.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P15,040, P11,401 and P5,181 in 2016, 2015 and 2014, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- d. Equity reserves pertain to reserve for retirement plan, unrealized fair value losses on AFS financial assets, exchange differences on translation of foreign operations and others. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.
- e. Undated Subordinated Capital Securities (USCS)

In February 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US\$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of The Securities Regulation Code (“SRC”) was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company’s option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distribution pertaining to the Securities amounting to US\$28.125 million were made on each of the following dates: February 6, 2015 (P1,770); August 6, 2015 (P1,837); February 5, 2016 (P1,918); and August 5, 2016 (P1,889).

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## 22. Cost of Goods Sold

This account consists of:

	<i>Note</i>	<b>2016</b>	2015	2014
Inventories	9	<b>P283,169</b>	P311,526	P451,318
Purchased services and utilities		<b>10,486</b>	8,156	4,464
Depreciation and amortization	25	<b>6,153</b>	2,724	2,654
Personnel expenses	24	<b>1,647</b>	1,565	1,529
Others	19, 31	<b>4,670</b>	4,763	3,439
		<b>P306,125</b>	P328,734	P463,404

Distribution or transshipment costs included as part of inventories amounted to P10,711, P11,066 and P10,289 in 2016, 2015 and 2014, respectively.

Others include manufacturing and overhead costs such as materials and supplies, maintenance and repairs and accretion of ARO.

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### 23. Selling and Administrative Expenses

This account consists of:

	<i>Note</i>	<b>2016</b>	2015	2014
Depreciation and amortization	14, 25	<b>P3,352</b>	P3,548	P3,379
Personnel expenses	24	<b>3,373</b>	3,150	2,731
Purchased services and utilities		<b>3,004</b>	2,597	2,333
Advertising		<b>1,460</b>	1,482	985
Maintenance and repairs		<b>1,108</b>	985	1,160
Materials and office supplies		<b>754</b>	603	342
Taxes and licenses		<b>415</b>	314	301
Rent - net	29, 31	<b>154</b>	164	103
Impairment losses on trade and other receivables	4, 8	<b>68</b>	154	2
Others	9	<b>230</b>	313	190
		<b>P13,918</b>	P13,310	P11,526

Selling and administrative expenses include research and development costs amounting to P62, P65 and P66 in 2016, 2015 and 2014, respectively (Note 9). Rent is shown net of rental income amounting to P1,139, P1,131 and P1,145 in 2016, 2015 and 2014, respectively.

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### 24. Personnel Expenses

This account consists of:

	<i>Note</i>	<b>2016</b>	2015	2014
Salaries, wages and other employee costs	28	<b>P4,348</b>	P4,210	P4,089
Retirement benefits costs - defined benefit plan	28, 30	<b>579</b>	419	91
Retirement benefits costs - defined contribution plan	28	<b>93</b>	86	80
		<b>P5,020</b>	P4,715	P4,260

The above amounts are distributed as follows:

	<i>Note</i>	<b>2016</b>	2015	2014
Costs of goods sold	22	<b>P1,647</b>	P1,565	P1,529
Selling and administrative expenses	23	<b>3,373</b>	3,150	2,731
		<b>P5,020</b>	P4,715	P4,260



## 25. Depreciation and Amortization

This account consists of:

	<b>Note</b>	<b>2016</b>	2015	2014
Cost of goods sold:				
Property, plant and equipment	11	<b>P5,316</b>	P2,291	P2,654
Other assets	14	<b>837</b>	433	-
	22	<b>6,153</b>	2,724	2,654
Selling and administrative expenses:				
Property, plant and equipment	11	<b>2,930</b>	3,073	2,840
Investment property	12	<b>1</b>	1	1
Intangible assets and others	14	<b>421</b>	474	538
	23	<b>3,352</b>	3,548	3,379
		<b>P9,505</b>	P6,272	P6,033

## 26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Expenses)

This account consists of:

	<b>Note</b>	<b>2016</b>	2015	2014
Interest expense and other financing charges:				
Long-term debt	18	<b>P3,657</b>	P869	P858
Short-term loans	15	<b>2,323</b>	3,284	3,302
Bank charges		<b>999</b>	1,157	1,182
Amortization of debt issue costs	18	<b>498</b>	144	115
Accretion on ARO	19	<b>76</b>	66	65
Others		<b>4</b>	13	6
		<b>P7,557</b>	P5,533	P5,528
Interest income:				
Advances to related parties	14, 28	<b>P261</b>	P297	P428
Short-term placements	5	<b>163</b>	313	331
AFS financial assets	7	<b>18</b>	11	10
Trade receivables		<b>50</b>	45	55
Cash in banks	5	<b>14</b>	20	20
Others		<b>1</b>	-	-
		<b>P507</b>	P686	P844

Forward

	<b>Note</b>	<b>2016</b>	2015	2014
Other income (expenses):				
Foreign currency losses - net	34	<b>(P2,236)</b>	(P4,305)	(P1,617)
Marked-to-market gains - net	35	<b>824</b>	936	2,153
Insurance claims		<b>16</b>	61	33
Changes in fair value of financial assets at FVPL	6	<b>10</b>	11	19
Hedging gains (losses) - net		<b>(152)</b>	637	140
Others - net	13	<b>(897)</b>	(835)	62
		<b>(P2,435)</b>	(P3,495)	P790

The Parent Company recognized its share in the net loss of PDSI amounting to P3.07, P3.71 and P0.39 in 2016, 2015 and 2014, respectively, and its share in the net income of TBSB amounting to P5.66 in 2016. These were recorded as part of "Other income (expenses) - others" account. Also included in "Others - net" was the impairment loss on goodwill amounting to P298 in 2016 (Note 13).

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

	<b>2016</b>	2015
Various allowances, accruals and others	<b>P894</b>	P414
Net retirement benefits liability	<b>878</b>	1,578
Unrealized foreign exchange losses - net	<b>791</b>	673
Inventory differential	<b>616</b>	874
ARO	<b>373</b>	295
Rental	<b>217</b>	255
Unutilized tax losses	<b>197</b>	184
MCIT	<b>6</b>	474
Fair market value adjustments on business combination	<b>(31)</b>	(32)
Capitalized taxes and duties on inventories deducted in advance	<b>(211)</b>	(245)
Excess of double-declining over straight-line method of depreciation and amortization	<b>(3,587)</b>	(2,782)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(5,675)</b>	(6,116)
NOLCO	-	2
Unrealized fair value gains on AFS financial assets	-	(1)
	<b>(P5,532)</b>	(P4,427)

The above amounts are reported in the consolidated statements of financial position as follows:

	<b>2016</b>	2015
Deferred tax assets	<b>P194</b>	P211
Deferred tax liabilities	<b>(5,726)</b>	(4,638)
	<b>(P5,532)</b>	(P4,427)

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	<b>2016</b>	2015	2014
Current	<b>P3,289</b>	P1,448	P569
Deferred	<b>267</b>	2,207	235
	<b>P3,556</b>	P3,655	P804

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	<b>2016</b>	2015	2014
Excess of double-declining over straight-line method of depreciation and amortization	<b>P805</b>	(P156)	(P163)
MCIT	<b>468</b>	(232)	(232)
Inventory differential	<b>258</b>	(569)	(743)
Rental	<b>38</b>	(9)	(28)
NOLCO	<b>2</b>	405	(388)
Unutilized tax gains (losses)	<b>(13)</b>	91	(151)
Capitalized taxes and duties on inventories deducted in advance	<b>(34)</b>	34	7
ARO	<b>(78)</b>	(75)	22
Unrealized foreign exchange losses (gains) - net	<b>(118)</b>	(67)	210
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(441)</b>	2,818	1,261
Various allowances, accruals and others	<b>(480)</b>	(14)	395
Others	<b>(140)</b>	(19)	45
	<b>P267</b>	P2,207	P235

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	<b>Note</b>	<b>2016</b>	2015	2014
Statutory income tax rate		<b>30.00%</b>	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	<b>(9.63%)</b>	-	(4.14%)
Interest income subjected to lower final tax		<b>(0.13%)</b>	(0.74%)	(2.20%)
Nontaxable income		<b>(2.36%)</b>	(0.89%)	(1.36%)
Nondeductible expense		<b>1.85%</b>	2.40%	5.53%
Nondeductible interest expense		<b>0.06%</b>	0.26%	0.71%
Changes in fair value of financial assets at FVPL	26	<b>(0.02%)</b>	(0.03%)	(0.16%)
Excess of optional standard deduction over deductible expenses		<b>(0.05%)</b>	(0.07%)	(0.13%)
Others, mainly income subject to different tax rates		<b>5.01%</b>	5.90%	(7.16%)
Effective income tax rate		<b>24.73%</b>	36.83%	21.09%

#### Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. Petrogen, LLCDC and PEDC opted to apply OSD in 2016, 2015 and 2014.

## 28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	<i>Note</i>	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	8, 14, 30, a	2016	P261	P -	P5,042	P -	On demand;	Unsecured;
		2015	297	-	6,597	-	long-term;	no impairment
		2014	428	-	6,263	-	interest bearing	
Intermediate Parent	e	2016	7	173	5	24	On demand;	Unsecured;
		2015	9	74	3	35	non-interest	no impairment
		2014	5	133	5	46	bearing	
Under Common Control	14, b, c, d, i	2016	6,473	30,773	1,096	5,850	On demand;	Unsecured;
		2015	3,587	14,504	975	1,682	non-interest	no impairment
		2014	7,261	7,298	1,026	1,089	bearing	
Associate	b	2016	154	-	33	-	On demand;	Unsecured;
		2015	143	-	31	-	non-interest	no impairment
		2014	152	-	29	-	bearing	
Joint Ventures	c, f	2016	-	172	-	3	On demand;	Unsecured;
		2015	-	95	-	2	non-interest	no impairment
		2014	-	83	11	12	bearing	
		2016	P6,895	P31,118	P6,176	P5,877		
		2015	P4,036	P14,673	P7,606	P1,719		
		2014	P7,846	P7,514	P7,334	P1,147		

- As of December 31, 2016 and 2015, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position, for some investment opportunities (Notes 8, 14 and 30).
- Sales relate to the Parent Company's supply agreements with associate and various SMC subsidiaries. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology and shipping from a joint venture and various SMC subsidiaries.
- Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6.91. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2016, the Parent Company reacquired the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account (Note 11).
- j. The compensation and benefits of key management personnel of the Group, by benefit type, included as part of "Personnel expenses" account follow (Note 24):

	<b>2016</b>	2015	2014
Salaries and other short-term employee benefits	<b>P754</b>	P659	P690
Retirement benefits costs (income) - defined benefit plan	<b>133</b>	86	(3)
Retirement benefits costs - defined contribution plan	<b>31</b>	27	25
	<b>P918</b>	P772	P712

## 29. Operating Lease Commitments

### Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	<b>2016</b>	2015	2014
Within one year	<b>P1,322</b>	P1,269	P1,181
After one year but not more than five years	<b>3,497</b>	2,982	2,814
After five years	<b>10,763</b>	9,821	9,296
	<b>P15,582</b>	P14,072	P13,291

### Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

	<b>2016</b>	2015	2014
Within one year	<b>P187</b>	P272	P279
After one year but not more than five years	<b>158</b>	259	322
After five years	<b>17</b>	14	25
	<b>P362</b>	P545	P626

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### **30. Retirement Plan**

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2016. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Effect of Asset Ceiling			Net Defined Benefit Retirement Asset (Liability)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Balance at beginning of year</b>	<b>(P5,603)</b>	(P5,947)	(P5,867)	<b>P12</b>	P3,603	P9,598	<b>P -</b>	P -	(P1,448)	<b>(P5,591)</b>	(P2,344)	P2,283
<b>Recognized in Profit or Loss</b>												
Current service cost	<b>(285)</b>	(302)	(302)	-	-	-	-	-	-	<b>(285)</b>	(302)	(302)
Past service cost - plan amendment	<b>(2)</b>	-	-	-	-	-	-	-	-	<b>(2)</b>	-	-
Interest expense	<b>(278)</b>	(269)	(311)	-	-	-	-	-	-	<b>(278)</b>	(269)	(311)
Interest income	-	-	-	<b>(14)</b>	152	500	-	-	-	<b>(14)</b>	152	500
Interest on the effect of asset ceiling	-	-	-	-	-	-	-	-	(77)	-	-	(77)
Settlement gain	-	-	99	-	-	-	-	-	-	-	-	99
	<b>(565)</b>	(571)	(514)	<b>(14)</b>	152	500	-	-	(77)	<b>(579)</b>	(419)	(91)
<b>Recognized in Other Comprehensive Income</b>												
Remeasurements:												
Actuarial losses (gains) arising from:												
Experience adjustments	<b>(398)</b>	(163)	(235)	-	-	-	-	-	-	<b>(398)</b>	(163)	(235)
Changes in financial assumptions	<b>173</b>	151	(331)	-	-	-	-	-	-	<b>173</b>	151	(331)
Changes in demographic assumptions	<b>302</b>	197	466	-	-	-	-	-	-	<b>302</b>	197	466
Return on plan asset excluding interest	-	-	-	<b>2,570</b>	(3,297)	(6,081)	-	-	-	<b>2,570</b>	(3,297)	(6,081)
Changes in the effect of asset ceiling	-	-	-	-	-	-	-	-	1,525	-	-	1,525
	<b>77</b>	185	(100)	<b>2,570</b>	(3,297)	(6,081)	-	-	1,525	<b>2,647</b>	(3,112)	(4,656)
<b>Others</b>												
Benefits paid	<b>753</b>	600	485	<b>(651)</b>	(546)	(414)	-	-	-	<b>102</b>	54	71
Contributions	-	-	-	<b>35</b>	100	-	-	-	-	<b>35</b>	100	-
Transfer to other accounts payable	-	6	-	-	-	-	-	-	-	-	6	-
Transfers from other plans/affiliate	<b>(16)</b>	-	-	-	-	-	-	-	-	<b>(16)</b>	-	-
Transfers to other plans/affiliate	<b>16</b>	-	-	-	-	-	-	-	-	<b>16</b>	-	-
Translation adjustment	<b>(6)</b>	124	49	-	-	-	-	-	-	<b>(6)</b>	124	49
	<b>747</b>	730	534	<b>(616)</b>	(446)	(414)	-	-	-	<b>131</b>	284	120
<b>Balance at end of year</b>	<b>(P5,344)</b>	(P5,603)	(P5,947)	<b>P1,952</b>	P12	P3,603	<b>P -</b>	P -	P -	<b>(P3,392)</b>	(P5,591)	(P2,344)



The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	<b>Note</b>	<b>2016</b>	2015
Trade and other payables	17	<b>P77</b>	P82
Retirement benefits liability (noncurrent portion)		<b>3,315</b>	5,509
		<b>P3,392</b>	P5,591

Retirement benefits costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P485, P329 and (P11) in 2016, 2015 and 2014, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P94, P90 and P102 in 2016, 2015 and 2014, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2016 and 2015.

Plan assets consist of the following:

	<b>2016</b>	2015
Shares of stock:		
Quoted	<b>82%</b>	74%
Unquoted	<b>4%</b>	4%
Government securities	<b>9%</b>	9%
Cash and cash equivalents	<b>2%</b>	3%
Others	<b>3%</b>	10%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2016, the Parent Company's plan assets include 731,156,097 common shares of Petron with fair market value per share of P9.95, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P80.00, and investment in Petron bonds amounting to P124.

The Group's plan recognized a gain (loss) on the investment in marketable securities and bonds of the Parent Company and SMC amounting to P2,169 and (P2,641) in 2016 and 2015, respectively, mainly as a result of marked-to-market re-measurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P85, P56, and P76 in 2016, 2015, and 2014, respectively.

On September 21, 2015, the plan's 2,000,000 Series "2", Subseries "A" preferred shares of SMC were redeemed at P75.00 per share.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921. Accordingly, the plan recognized gain on sale of investment amounting to P503.

*Investment in Trust Account.* Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

Others include receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P456 to its defined benefit retirement plan in 2017.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Risk.* The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Parent company's long-term strategy to manage the plans efficiently.

*Longevity and Salary Risks.* The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2016	2015	2014
Discount rate	<b>5.38% to 5.53%</b>	4.60% to 5.50%	4.49% to 5.50%
Future salary increases	<b>5.00% to 8.00%</b>	6.00% to 8.00%	6.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.46 to 23.90 years and 6.78 to 27.78 years as of December 31, 2016 and 2015, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

<b>2016</b>	<b>Defined Benefit Liabilities</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
Discount rate	(P375)	P435
Salary increase rate	392	(345)

<b>2015</b>	<b>Defined Benefit Liabilities</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
Discount rate	(P402)	P469
Salary increase rate	436	(382)

The Parent Company has advances to PCERP amounting to P5,042 and P6,597 as of December 31, 2016 and 2015, respectively, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position (Notes 8, 14 and 28). The advances are subject to interest of 5% in 2016 and 2015 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2016 and 2015 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2016 and 2015.

### **31. Significant Agreements**

*Supply Agreement.* The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company ("Saudi Aramco"), based on the latter's standard Far East selling prices. The contract is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice. PSTPL entered into a term contract with Kuwait Petroleum Corporation ("KPC") to purchase Kuwait Export Crude Oil ("KEC") at pricing based on latter's standard KEC prices. The contract is from January 1, 2015 to December 31, 2015 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company and PSTPL 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 December 31, 2016 and 2015 (Note 16).

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with EXTAP, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

*Toll Service Agreement with Innospec Limited ("Innospec").* PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filling and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P64, P48 and P49 in 2016, 2015 and 2014, respectively.

*Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc.* PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The agreement expired in November 2015 and was renewed for another two years until November 2017. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone.

*Lease Agreement with Philippine National Oil Company (PNOC).* On September 30, 2009, the Parent Company 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 January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2016 and 2015, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

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### 32. Basic and Diluted Earnings Per Share

Basic and diluted earnings (loss) per share amounts are computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	<b>P10,100</b>	P5,618	P3,320
Dividends on preferred shares for the year	<b>(646)</b>	(646)	(1,114)
Distributions to the holders of USCS	<b>(3,807)</b>	(3,607)	(3,580)
Net income (loss) attributable to common shareholders of the Parent Company (a)	<b>P5,647</b>	P1,365	(P1,374)
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.60</b>	P0.15	(P0.15)

As of December 31, 2016, 2015 and 2014, the Parent Company has no potential dilutive debt or equity instruments.

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### 33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

	2016	2015	2014
Decrease (increase) in assets:			
Trade receivables	<b>(P230)</b>	P18,138	P12,704
Inventories	<b>(13,029)</b>	22,875	(1,547)
Other current assets	<b>954</b>	(8,136)	(6,392)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	<b>11,842</b>	(10,030)	(16,122)
Trade and other payables and others	<b>4,922</b>	(27,934)	5,083
	<b>4,459</b>	(5,087)	(6,274)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	<b>91</b>	(397)	(286)
	<b>P4,550</b>	(P5,484)	(P6,560)

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### 34. 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 short-term forward currency contracts to hedge its currency exposure on crude oil importations.

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 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 is 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 Board, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

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

- a. The Audit and Risk Management Committee ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit and Risk Management Committee regarding the direction, scope and coordination of audit and any related activities.
- b. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD through the Audit and Risk Management Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, 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.

#### 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.

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

	2016		2015	
	US dollar	Phil. peso Equivalent	US dollar	Phil. peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	261	12,989	287	13,510
Trade and other receivables	218	10,808	165	7,788
Other assets	5	244	46	2,157
	<b>484</b>	<b>24,041</b>	498	23,455
<b>Liabilities</b>				
Short-term loans	40	1,996	326	15,351
Liabilities for crude oil and petroleum products	539	26,798	284	13,380
Long-term debts (including current maturities)	651	32,347	959	45,153
Other liabilities	82	4,056	78	3,658
	<b>1,312</b>	<b>65,197</b>	1,647	77,542
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(828)</b>	<b>(41,156)</b>	(1,149)	(54,087)

The Group incurred net foreign currency losses amounting to P2,236, P4,305 and P1,617 in 2016, 2015 and 2014, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	PhP to US\$
<b>December 31, 2016</b>	<b>49.720</b>
December 31, 2015	47.060
December 31, 2014	44.720

Management of foreign currency risk is also supplemented by monitoring the sensitivity of 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 December 31, 2016 and 2015:

2016	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
Cash and cash equivalents	(P132)	(P221)	P132	P221
Trade and other receivables	(97)	(189)	97	189
Other assets	-	(5)	-	5
	(229)	(415)	229	415
Short-term loans	-	40	-	(40)
Liabilities for crude oil and petroleum products	294	451	(294)	(451)
Long-term debts (including current maturities)	605	470	(605)	(470)
Other liabilities	14	77	(14)	(77)
	913	1,038	(913)	(1,038)
	P684	P623	(P684)	(P623)

2015	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
Cash and cash equivalents	(P154)	(P241)	P154	P241
Trade and other receivables	(84)	(140)	84	140
Other assets	(34)	(36)	34	36
	(272)	(417)	272	417
Short-term loans	240	254	(240)	(254)
Liabilities for crude oil and petroleum products	130	245	(130)	(245)
Long-term debts (including current maturities)	890	692	(890)	(692)
Other liabilities	12	74	(12)	(74)
	1,272	1,265	(1,272)	(1,265)
	P1,000	P848	(P1,000)	(P848)

Exposures to foreign currency 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.

#### Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P323 and P452 in 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2016 and 2015, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2016	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.52% - 5.5%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US\$ denominated (expressed in PhP)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

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

2015	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P36	P20,036	P1,678	P1,029	P1,029	P4,648	P28,456
Interest rate	6.3% - 7.2%	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	639	1,096	1,096	458	-	-	3,289
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF	1.5%+COF			
US\$ denominated (expressed in PhP)	33	10,085	13,782	10,588	7,395	-	41,883
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin		
	P708	P31,217	P16,556	P12,075	P8,424	P4,648	P73,628

\*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 National 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 statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Cash in bank and cash equivalents (net of cash on hand)	5	<b>P15,538</b>	P16,852
Derivative assets	6	<b>64</b>	362
Available-for-sale financial assets	7	<b>479</b>	621
Trade and other receivables - net	8	<b>31,548</b>	30,749
Due from related parties	14	-	1,816
Long-term receivables - net	14	<b>205</b>	189
Noncurrent deposits	14	<b>81</b>	82
		<b>P47,915</b>	P50,671

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.

In monitoring trade receivables and credit lines, the Group maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly), past due accounts (weekly) and credit utilization efficiency (semi-annually).

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P3,943 and P4,070 as of December 31, 2016 and 2015, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2016 and 2015 are shown below (Note 8):

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
<b>December 31, 2016</b>				
Reseller	P3,221	P127	P63	P3,411
Lubes	450	7	11	468
Gasul	529	61	118	708
Industrial	7,316	382	535	8,233
Others	6,162	277	80	6,519
	<b>P17,678</b>	<b>P854</b>	<b>P807</b>	<b>P19,339</b>

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2015				
Reseller	P2,806	P117	P71	P2,994
Lubes	341	8	13	362
Gasul	392	48	133	573
Industrial	5,071	367	518	5,956
Others	8,021	306	89	8,416
	<b>P16,631</b>	<b>P846</b>	<b>P824</b>	<b>P18,301</b>

*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 are 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*" refers 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.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2016 and 2015:

	Trade Accounts Receivables Per Class			Total
	Class A	Class B	Class C	
<b>December 31, 2016</b>				
Reseller	P501	P2,775	P135	P3,411
Lubes	366	50	52	468
Gasul	287	258	163	708
Industrial	2,416	4,959	858	8,233
Others	3,273	2,408	838	6,519
	<b>P6,843</b>	<b>P10,450</b>	<b>P2,046</b>	<b>P19,339</b>

	Trade Accounts Receivables Per Class			Total
	Class A	Class B	Class C	
December 31, 2015				
Reseller	P307	P2,622	P65	P2,994
Lubes	155	194	13	362
Gasul	111	346	116	573
Industrial	1,451	3,031	1,474	5,956
Others	5,664	2,590	162	8,416
	P7,688	P8,783	P1,830	P18,301

#### 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 December 31, 2016 and 2015.

2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,332	P17,332	P17,332	P -	P -	P -
Trade and other receivables	31,548	31,548	31,548	-	-	-
Due from related parties	-	-	-	-	-	-
Derivative assets	64	64	64	-	-	-
Financial assets at FVPL	157	157	157	-	-	-
AFS financial assets	479	522	96	208	172	46
Long-term receivables - net	205	205	-	-	205	-
Noncurrent deposits	81	81	-	13	68	-
<b>Financial Liabilities</b>						
Short-term loans	90,366	90,882	90,882	-	-	-
Liabilities for crude oil and petroleum products	29,966	29,966	29,966	-	-	-
Trade and other payables*	12,709	12,709	12,709	-	-	-
Derivative liabilities	778	778	778	-	-	-
Long-term debts (including current maturities)	79,852	91,103	24,673	15,711	42,050	8,669
Cash bonds	387	393	-	372	4	17
Cylinder deposits	499	499	-	-	-	499
Other noncurrent liabilities	73	73	-	14	34	25

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

2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P18,881	P18,881	P18,881	P -	P -	P -
Trade and other receivables	30,749	30,749	30,749	-	-	-
Due from related parties	1,816	1,816	-	1,816	-	-
Derivative assets	362	362	362	-	-	-
Financial assets at FVPL	147	147	147	-	-	-
AFS financial assets	621	657	253	68	209	127
Long-term receivables - net	189	272	-	-	272	-
Noncurrent deposits	82	83	-	5	9	69
<b>Financial Liabilities</b>						
Short-term loans	99,481	100,126	100,126	-	-	-
Liabilities for crude oil and petroleum products	16,271	16,271	16,271	-	-	-
Trade and other payables*	6,767	6,767	6,767	-	-	-
Derivative liabilities	603	603	603	-	-	-
Long-term debts (including current maturities)	72,420	82,675	4,077	34,306	39,324	4,968
Cash bonds	382	388	-	367	4	17
Cylinder deposits	454	454	-	-	-	454
Other noncurrent liabilities	70	70	-	-	-	70

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

### Commodity Price Risk

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

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the Commodity Risk Management Committee 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 (FVPL and AFS financial assets). 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 statements of financial position. The Group's capital for the covered reporting period is summarized below:

	<b>2016</b>	2015
Total assets	<b>P318,893</b>	P294,267
Total liabilities	<b>230,073</b>	211,167
Total equity	<b>88,820</b>	83,100
Debt to equity ratio	<b>2.6:1</b>	2.5:1
Assets to equity ratio	<b>3.6:1</b>	3.5:1

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

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

### **35. Financial Assets and Financial Liabilities**

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

	<i>Note</i>	<b>2016</b>		2015	
		<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	<b>P17,332</b>	<b>P17,332</b>	P18,881	P18,881
Trade and other receivables	8	<b>31,548</b>	<b>31,548</b>	30,749	30,749
Due from related parties	14	-	-	1,816	1,816
Long-term receivables - net	14	<b>205</b>	<b>205</b>	189	189
Noncurrent deposits	14	<b>81</b>	<b>81</b>	82	82
Loans and receivables		<b>49,166</b>	<b>49,166</b>	51,717	51,717
AFS financial assets	7	<b>479</b>	<b>479</b>	621	621
Financial assets at FVPL	6	<b>157</b>	<b>157</b>	147	147
Derivative assets	6	<b>64</b>	<b>64</b>	362	362
FA at FVPL		<b>221</b>	<b>221</b>	509	509
Total financial assets		<b>P49,866</b>	<b>P49,866</b>	P52,847	P52,847

	Note	2016		2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	P90,366	P90,366	P99,481	P99,481
Liabilities for crude oil and petroleum products	16	29,966	29,966	16,271	16,271
Trade and other payables*	17	12,709	12,709	6,767	6,767
Long-term debt including current portion	18	79,852	79,852	72,420	72,420
Cash bonds	20	387	387	382	382
Cylinder deposits	20	499	499	454	454
Other noncurrent liabilities	20	73	73	70	70
FL at amortized cost		213,852	213,852	195,845	195,845
Derivative liabilities		778	778	603	603
<b>Total financial liabilities</b>		<b>P214,630</b>	<b>P214,630</b>	<b>P196,448</b>	<b>P196,448</b>

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

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

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

*Financial Assets at FVPL and AFS Financial Assets.* The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

*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 in 2016 and 2015 are 4.99% and 5.84%, 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

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

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. 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 profit or loss.

### Freestanding Derivatives

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

*Currency Forwards.* As of December 31, 2016 and 2015, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$875 million and US\$1,013 million, respectively, and with various maturities in 2017 and 2016. As of December 31, 2016 and 2015, the net fair value of these currency forwards amounted to (P38) and (P202), respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017 and 2016. 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 26.3 million barrels and 10.9 million barrels for 2016 and 2015, respectively. The estimated net payouts for these transactions amounted to P676 and P39 in 2016 and 2015, respectively.

*Commodity Options.* As of December 31, 2016 and 2015, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

### Embedded Derivatives

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

As of December 31, 2016 and 2015, 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 December 31, 2016 and 2015, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2016, 2015 and 2014, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P824, P936 and P2,153, respectively (Note 26).

### Fair Value Changes on Derivatives

The net movements in the fair value of all derivative transactions in 2016 and 2015 are as follows:

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Fair value at beginning of year		<b>(P241)</b>	P1,398
Net changes in fair value during the year	26	<b>824</b>	936
Fair value of settled instruments		<b>(1,297)</b>	(2,575)
Fair value at end of year		<b>(P714)</b>	(P241)

### Fair Value Hierarchy

Financial assets and liabilities measured at fair value in the consolidated 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 December 31, 2016 and 2015. The different levels have been defined as follows:

- 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 are not based on observable market data.

<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P -</b>	<b>P157</b>	<b>P157</b>
Derivative assets	-	<b>64</b>	<b>64</b>
AFS financial assets	<b>141</b>	<b>338</b>	<b>479</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(778)</b>	<b>(778)</b>
<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	P -	P147	P147
Derivative assets	-	362	362
AFS financial assets	71	550	621
Financial Liabilities:			
Derivative liabilities	-	(603)	(603)

The Group has no financial instruments valued based on Level 3 as of December 31, 2016 and 2015. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

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### **36. Registration with the Board of Investments (BOI)**

#### Benzene, Toluene and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, the Company is entitled to certain benefits on its production of petroleum products used as petrochemical feedstock, mainly, among others, Income Tax Holiday (ITH): (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

The BOI extended Petron's ITH incentive for its propylene sales from December 2013 to November 2014 and for its benzene and toluene sales from May 2014 to April 2015.

#### RMP-2 Project

On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH during the year.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

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### 37. 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 CEO (the chief operating decision maker) reviews management reports on a regular basis.

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

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

#### 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 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 years ended December 31, 2016, 2015 and 2014.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2016</b>						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,982	132	517	32	(162,663)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets*	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities*	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2015</b>						
Revenue:						
External sales	P357,908	P -	P33	P2,270	(P33)	P360,178
Inter-segment sales	158,171	107	509	55	(158,842)	-
Operating income	17,048	78	256	83	669	18,134
Net income	9,349	103	97	87	(3,366)	6,270
Assets and liabilities:						
Segment assets*	333,187	1,097	5,181	904	(46,313)	294,056
Segment liabilities*	216,062	178	4,004	313	(14,028)	206,529
Other segment information:						
Property, plant and equipment	156,319	-	-	208	5,070	161,597
Depreciation and amortization	6,164	-	2	39	67	6,272
Interest expense	5,533	-	183	-	(183)	5,533
Interest income	846	15	1	7	(183)	686
Income tax expense	3,479	11	35	21	109	3,655

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2014</b>						
Revenue:						
External sales	P479,753	P -	P -	P2,782	P -	P482,535
Inter-segment sales	249,428	82	550	-	(250,060)	-
Operating income	7,154	53	238	59	101	7,605
Net income	3,172	85	36	70	(354)	3,009
Assets and liabilities:						
Segment assets*	422,442	1,388	5,090	1,072	(38,910)	391,082
Segment liabilities*	292,491	185	4,010	360	(22,885)	274,161
Other segment information:						
Property, plant and equipment	148,256	-	-	232	5,162	153,650
Depreciation and amortization	5,920	-	2	45	66	6,033
Interest expense	5,528	-	189	-	(189)	5,528
Interest income	1,011	14	1	6	(188)	844
Income tax expense	809	11	22	14	(52)	804

\*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P162,663, P158,842 and P250,060 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2016, 2015 and 2014:

	<b>Reseller</b>	<b>Lube</b>	<b>Gasul</b>	<b>Industrial</b>	<b>Others</b>	<b>Total</b>
<b>2016</b>						
Revenue	<b>P161,415</b>	<b>P4,445</b>	<b>P17,922</b>	<b>P83,650</b>	<b>P74,547</b>	<b>P341,979</b>
Property, plant and equipment	<b>18,557</b>	<b>110</b>	<b>384</b>	<b>210</b>	<b>152,069</b>	<b>171,330</b>
Capital expenditures	<b>3,214</b>	<b>1</b>	<b>89</b>	<b>110</b>	<b>21,920</b>	<b>25,334</b>
<b>2015</b>						
Revenue	169,179	4,052	18,119	81,587	84,971	357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585
<b>2014</b>						
Revenue	241,118	3,677	25,157	138,455	71,346	479,753
Property, plant and equipment	22,167	150	393	161	125,385	148,256
Capital expenditures	2,256	-	41	98	102,333	104,728

#### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2016 and 2015.

	<b>2016</b>	<b>2015</b>
Local	<b>P261,761</b>	P242,529
International	<b>56,938</b>	51,527
	<b>P318,699</b>	P294,056

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2016, 2015 and 2014.

	<b>Petroleum</b>	<b>Insurance</b>	<b>Leasing</b>	<b>Marketing</b>	<b>Elimination/ Others</b>	<b>Total</b>
<b>2016</b>						
Local	<b>P204,585</b>	<b>P64</b>	<b>P593</b>	<b>P1,855</b>	<b>(P1,686)</b>	<b>P205,411</b>
Export/international	<b>299,375</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>(161,014)</b>	<b>138,429</b>
<b>2015</b>						
Local	212,724	57	542	2,325	(2,014)	213,634
Export/international	303,355	50	-	-	(156,861)	146,544
<b>2014</b>						
Local	276,885	52	550	2,782	(3,538)	276,731
Export/international	452,296	30	-	-	(246,522)	205,804

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### 38. Events After the Reporting Date

On February 3, 2017, the Parent Company paid distributions amounting to US\$28.125 million (P2,000) to the holders of USCS.

On March 14, 2017, the BOD of the Parent Company approved cash dividends for common and series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 28, 2017	April 12, 2017
Series 2A	15.75000	April 12, 2017	May 3, 2017
Series 2B	17.14575	April 12, 2017	May 3, 2017
Series 2A	15.75000	July 18, 2017	August 3, 2017
Series 2B	17.14575	July 18, 2017	August 3, 2017

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### 39. Other Matters

a. The Group has unused letters of credit totaling approximately P21,638 and P28,799 as of December 31, 2016 and 2015, respectively.

b. Tax Credit Certificates Related Cases

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against the Parent Company relating to its use of P659 worth of Tax Credit Certificate ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Parent Company filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2016.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (RTC) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance 8119), which applied to the entire City of Manila. Ordinance 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (Ordinance 8187), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Parent Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2016, the appeal remained pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.



On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, the Parent Company filed its submission in compliance with the November 25 Decision.

d. 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. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2016.

e. 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.

**PETRON CORPORATION AND SUBSIDIARIES**  
**INDEX TO SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2016**

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**Statement of Management's Responsibility for the Consolidated Financial Statements**

**Report of Independent Auditors on Supplementary Information  
Filed Separately from the Consolidated Financial Statements**

**Supplementary Schedules to the Consolidated Financial Statements**

<b>Supplementary Schedules of Annex 68 - E</b>	<u>Page No.</u>
A. Financial Assets	NA <sup>(a)</sup>
B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	NA <sup>(b)</sup>
C. Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 - 2
D. Goodwill and Other Intangible Assets	3
E. Long-term Debt	4
F. Indebtedness to Related Parties	NA <sup>(c)</sup>
G. Guarantees of Securities of Other Issuers	NA
H. Capital Stock	5

<sup>(a)</sup>Balance of Financial Assets at Fair Value Through Profit or Loss is less than 5% of total current assets.

<sup>(b)</sup>Balance of account is less than 1% of the total assets of the Group and no individually significant advances over P100,000.

<sup>(c)</sup>Balance of account is less than 5% of total assets of the Group

**Map of the Conglomerate within which the Group belongs**

**Schedule of Philippine Financial Reporting Standards and Interpretations**

**Financial Soundness Indicators**

**Schedule of Proceeds from Recent Offering of Securities**

**Report on Independent Auditors on Supplementary Information  
Filed Separately from the Separate Financial Statements**

**Supplementary Schedule to Separate Financial Statements**

**Reconciliation of Parent Company's Retained Earnings Available for  
Dividend Declaration**



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **Petron Corporation (the "Company") and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2016 and 2015**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



\_\_\_\_\_  
**EDUARDO M. COJUANGCO, JR.**  
Chairman



\_\_\_\_\_  
**RAMON S. ANG**  
President and Chief Executive Officer



\_\_\_\_\_  
**EMMANUEL E. ERAÑA**  
Senior Vice President and Chief Finance Officer


Signed this 14th day of March 2017



**SUBSCRIBED AND SWORN TO** before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 20 2017, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. EC3542719	27 Feb 2015/ DFA Manila
Ramon S. Ang	Passport No. EC3542718	27 Feb 2015/ DFA Manila
Emmanuel E. Eraña	Passport No. EC2176330	23 Sept 2014 / DFA Manila

Doc. No. 140 ;  
Page No. 29 ;  
Book No. vii ;  
Series of 2017

  
**DOMINIC P. QUEZON**  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City,  
Appointment No. 0382-16  
Until December 31, 2017  
Attorney's Roll No. 56728  
PTR No. 3017310/1-3-17/Mandaluyong  
Lifetime IRP No. 08324  
MCLE Compliance No. V-0020700/4-20-2016



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Petron Corporation (the "Company") and Subsidiaries (the "Group") as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, and have issued our report thereon dated March 14, 2017.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Supplementary Schedules of Annex 68-E
- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

### R.G. MANABAT & CO.

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-31-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. 5904948MD  
Issued January 3, 2017 at Makati City

March 14, 2017  
Makati City, Metro Manila

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**  
**(Amounts in Millions)**

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	7,242	21,275	(21,959)	-	6,558	2,438	4,120	6,558
Overseas Ventures Insurance Corporation Ltd.	7	33	(31)	-	9	9	-	9
Petrogen Insurance Corporation	25	704	(712)	-	17	17	-	17
Petron Freeport Corporation	1	-	(1)	-	-	-	-	-
Petron Singapore Trading Pte., Ltd.	6,373	141,612	(132,440)	-	15,545	15,545	-	15,545
Petron Marketing Corporation	126	80	(188)	-	18	18	-	18
New Ventures Realty Corporation and Subsidiaries	7	638	(481)	-	164	21	143	164
Limay Energen Corporation	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	-	-	-	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	4	(2)	(1)	-	1	1	-	1
Petrochemical Asia (Hk) Limited and Subsidiaries	70	50	(38)	-	82	82	-	82
<b>TOTAL</b>	<b>13,855</b>	<b>164,390</b>	<b>(155,851)</b>	<b>-</b>	<b>22,394</b>	<b>18,131</b>	<b>4,263</b>	<b>22,394</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**  
 (Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	6,516	141,497	(133,065)	-	14,948	14,805	143	14,948
Overseas Ventures Insurance Corporation Ltd.	14	8	(13)	-	9	9	-	9
Petrogen Insurance Corporation	8	80	(49)	-	39	39	-	39
Petron Freeport Corporation	39	444	(438)	-	45	45	-	45
Petron Singapore Trading Pte., Ltd.	3,298	19,300	(20,240)	-	2,358	2,358	-	2,358
Petron Marketing Corporation	91	552	(644)	-	(1)	(1)	-	(1)
New Ventures Realty Corporation and Subsidiaries	3,888	752	(448)	-	4,192	72	4,120	4,192
Limay Energen Corporation	-	-	-	-	-	-	-	-
Petron Global Limited	-	-	-	-	-	-	-	-
Petron Finance (Labuan) Limited	1	6	(7)	-	-	-	-	-
Petron Oil And Gas Mauritius Ltd. and Subsidiaries	-	1,751	(947)	-	804	804	-	804
Petrochemical Asia (Hk) Limited and Subsidiaries	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>13,855</b>	<b>164,390</b>	<b>(155,851)</b>	<b>-</b>	<b>22,394</b>	<b>18,131</b>	<b>4,263</b>	<b>22,394</b>

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - GOODWILL AND OTHER INTANGIBLE ASSETS**  
**DECEMBER 31, 2016**  
*(Amounts in Millions)*

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
<b>Goodwill:</b>						
Cost	P 7,694	P -	P -	P -	P 84	P 7,778
Less: impairment for the year	-	-	298	-	-	298
	<u>P 7,694</u>	<u>P -</u>	<u>P (298)</u>	<u>P -</u>	<u>P 84</u>	<u>P 7,480</u>
<b>Franchise Fee:</b>						
Cost	P 17	P -	P -	P -	P -	P 17
Less: amortization for the year	13	-	4	-	-	17
	<u>P 4</u>	<u>P -</u>	<u>P (4)</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
<b>Computer Software:</b>						
Cost	P 514	P -	P -	P -	P 7	P 521
Less: amortization for the year	405	-	80	-	1	486
	<u>P 109</u>	<u>P -</u>	<u>P (80)</u>	<u>P -</u>	<u>P 6</u>	<u>P 35</u>



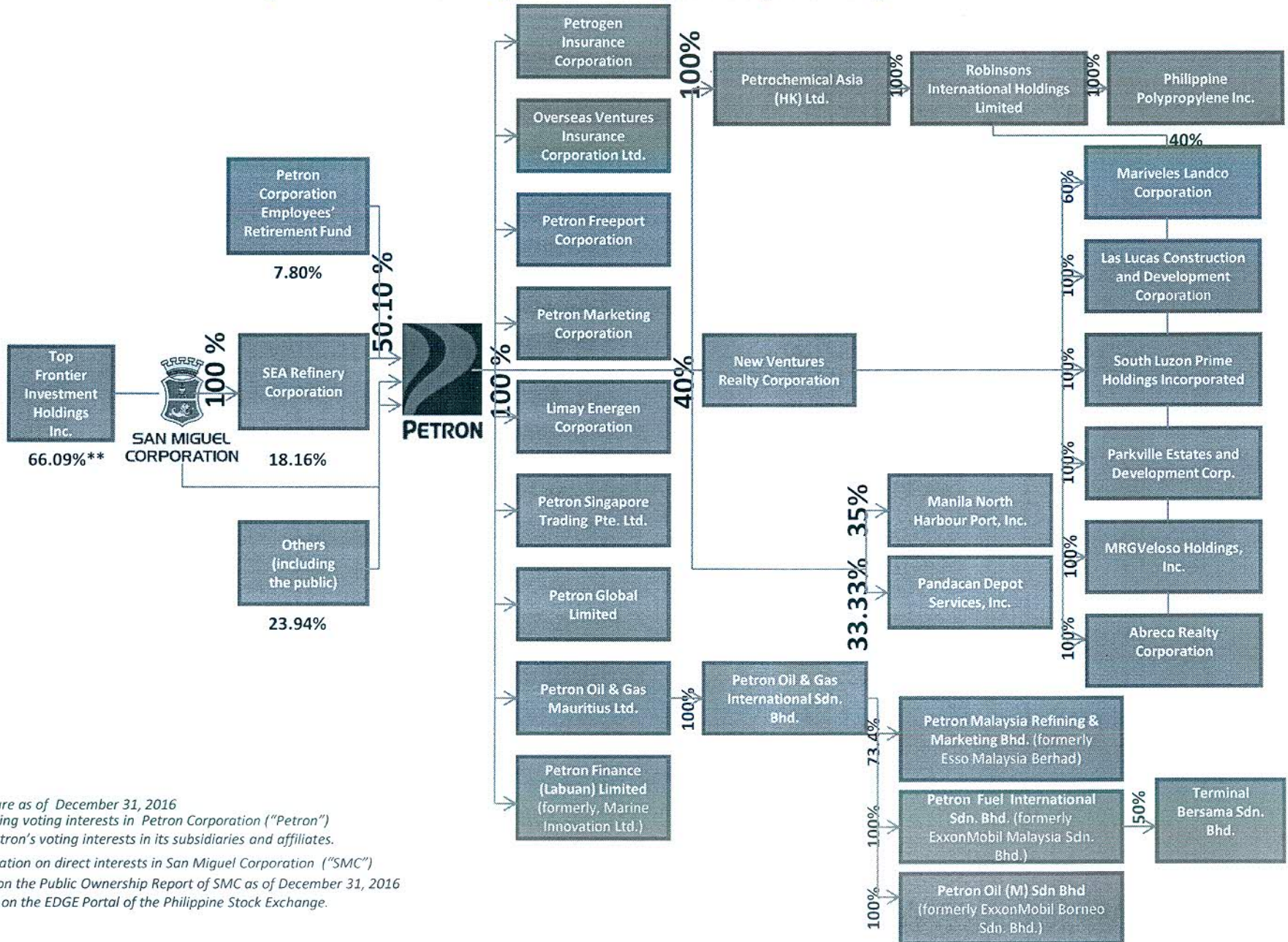
PETRON CORPORATION AND SUBSIDIARIES  
SCHEDULE E - LONG-TERM DEBT  
DECEMBER 31, 2016  
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Amount Shown as Current	Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
<u>Unsecured term notes and bonds:</u>							
<u>Peso denominated:</u>							
Fixed	Deutsche Bank AG, Hongkong Branch	P 20,000	P 19,964	P 19,964	7.0000%	Bullet	November 2017
Fixed	Rizal Commercial Banking Corporation	3,420	32	3,401	6.3212%;	Amortized 7 years: 1% per annum for 6 years; 94% on final maturity;	October 2018;
Fixed	Union Bank of the Philippines	5,000	-	4,981	7.1827%	Amortized 10 years: 1% per annum for 9 years; 91% on final maturity	October 2021
Fixed	Philippine Depository and Trust Corp.	20,000	-	19,801	5.4583% + GRT	2-yr grace period; amortized 5 years	October 2022
		48,420	19,996	48,147	4.0032%;		October 2021;
					4.5219%	Bullet	October 2023
<u>Foreign currency - denominated</u>							
Floating	Standard Chartered Bank (Hongkong) Limited	6,712	-	6,556	LIBOR + margin	2-yr grace period; amortized 5 years	May 2019
Floating	Standard Chartered Bank (Hongkong) Limited	23,368	-	22,891	LIBOR + margin	2-yr grace period; amortized 5 years	July 2020
Floating	Affin Bank Berhad	835	364	832	COF + margin	Amortized	March 2019
Floating	Malayan Banking Berhad	924	367	920	COF + margin	Amortized	June 2019
Floating	Malayan Banking Berhad	508	184	506	COF + margin	Amortized	July 2019
		32,347	915	31,705			
<b>Total Long-term Debt</b>		<b>P 80,767</b>	<b>P 20,911</b>	<b>P 79,852</b>			

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2016**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Common stock	9,375,104,497	9,375,104,497	Not applicable	7,130,912,221	1,728,445	2,242,463,831
Preferred stock	624,895,503	-	Not applicable	-	-	-
Series 2A Preferred		7,122,320	Not applicable	-	39,000	7,083,320
Series 2B Preferred		2,877,680	Not applicable	-	-	2,877,680

# PETRON GROUP STRUCTURE (with Shareholdings in San Miguel Corporation)



\* Structure as of December 31, 2016 indicating voting interests in Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries and affiliates.

\*\* Information on direct interests in San Miguel Corporation ("SMC") based on the Public Ownership Report of SMC as of December 31, 2016 posted on the EDGE Portal of the Philippine Stock Exchange.

## PETRON CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements	✓		
	PFRS 8	Operating Segments	✓	
Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments		✓		
PFRS 9	Financial Instruments		✓	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39		✓	
PFRS 9 (2014)	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard		✓	
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers		✓	
<b>PFRS 16</b>	Leases		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative		✓	
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✓		
	Amendments to PAS 40: Transfers of Investment Property		✓	



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan	✓		
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position	✓		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✓		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A	PAS 19 - Accounting for Employee Benefits under a	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
2013-03 (Revised)	Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓

**Legend:**

**Adopted** - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** - means the standard or interpretation is not relevant at all to the operations of the entity.

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

<b>Financial Ratios</b>	<b>Formula</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>0.79</b>	0.91
<b>Solvency</b>			
b) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	<b>2.59</b>	2.54
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.59</b>	3.54
<b>Profitability</b>			
d) Return on Average Equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>12.59%</b>	6.37%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$	<b>4.26</b>	4.03

**PETRON CORPORATION**  
**Schedule of Proceeds from Recent Offering of Securities**

Offer of ₱15,000,000,000 Fixed Rate Bonds with an Oversubscription Option of up to ₱5,000,000,000 Fixed Rate Bonds

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

Assuming full exercise of the Oversubscription Option, the Company estimates that the net proceeds from the Offer shall amount to approximately ₱19.80 billion, after deducting the following fees, commissions and expenses:

In ₱ Millions	
<b>Gross Proceeds</b>	<b>₱20,000.00</b>
Less: Underwriting fees for the Offer Bonds being sold by the Company	80.00
Taxes to be paid by the Company	100.00
Philippine SEC filing and legal research fee	5.62
Listing application fee	0.20
Listing maintenance fee	0.30
Rating fee	4.80
Trustee fees	0.22
Registry and paying agency fees	1.10
Estimated legal and other professional fees	8.00
Estimated other expenses	0.50
<b>Total Expenses</b>	<b>₱200.74</b>
<b>Net Proceeds</b>	<b>₱19,799.26</b>

The net proceeds of the Offer shall be used primarily to refinance existing indebtedness and fund working capital requirements, as follows:

**ii. Actual Gross and Net Proceeds**

In ₱ Millions	
<b>Actual Gross Proceeds</b>	<b>₱20,000.00</b>
Less: Underwriting Fees, Filing and Processing Fees, Documentary Stamp Tax, Legal and Professional Fees and Other Expenses	204.76
<b>Actual Net Proceeds</b>	<b>₱19,795.24</b>

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

In ₱ Millions	
Actual Net Proceeds	₱19,795.24
Less: Prepayment of Long-term loans	11,878.83
Payment of Short-term loans	5,028.19
Purchase of crude	2,888.22
Total Payments	₱19,795.24
<b>Balance</b>	<b>₱0.00</b>

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

As of the year ended December 31, 2016, the proceeds were fully utilized.



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
Petron Corporation  
SMC Head Office Complex  
40 San Miguel Avenue  
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of Petron Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, and the separate statements of comprehensive income, separate statement of changes in equity and separate statements of cash flows for the years then ended, and have issued our report thereon dated March 14, 2017.

Our audits were made for the purpose of forming an opinion on the separate financial statements taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

### R.G. MANABAT & CO.

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017  
Tax Identification No. 912-535-864  
BIR Accreditation No. 08-001987-31-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. 5904948MD  
Issued January 3, 2017 at Makati City

March 14, 2017  
Makati City, Metro Manila

**PETRON CORPORATION**  
**SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**

**December 31, 2016**

(Amounts in Thousand Pesos)

*(Figures based on audited  
financial statements)*

Unappropriated Retained Earnings, <i>as adjusted to available for dividend distribution</i> , beginning		<b>P6,203,452</b>
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to Retained Earnings	P5,695,204	
Less: Non-actual/ unrealized income, net of tax:		
Adjustment due to deviation from PFRS/ GAAP - gain	27,359	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	6,902	
Sub-total	5,660,943	
Add: Non-actual losses, net of tax:		
Adjustment due to deviation from PFRS/ GAAP - loss	2,047	
<b>Net income actually earned during the period</b>	<b>5,662,990</b>	<b>5,662,990</b>
Add (Less):		
Dividend declarations during the period	(1,583,576)	
Distributions paid	(3,807,603)	
Appropriations of retained earnings during the year	(15,000,000)	
Reversal of appropriations	25,000,000	
	4,608,821	<b>4,608,821</b>
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND</b>		<b>P16,475,263</b>