AHEAD OF THE GAME

2016 ANNUAL REPORT

Petron is the undisputed leader in the Philippine oil industry and is a leading player in Malaysia.

After the roll-out of a full line of Euro 4 standard fuels ahead of the 2016 government mandate, **Petron marked another industry first with the introduction of Petron Blaze 100 Euro 5**, a more stringent fuel standard. We likewise introduced Petron Turbo Diesel Euro 5 in Malaysia.

104
Million Barrels

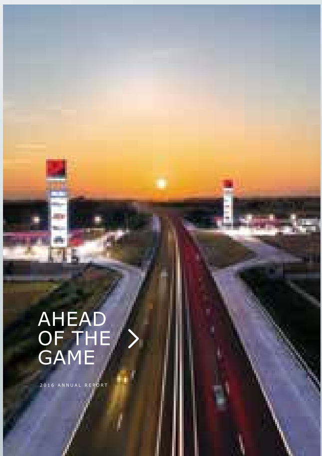
We sold 104 million barrels in the Philippines and Malaysia – the **first time we breached the 100 million mark.** This is a 6% increase from 2015's 98 million barrels.

2,900
Service Stations

We maintained the widest service station network in the Philippines at nearly 2,300. In turn, we continued to expand our presence in Malaysia to end the year with 580 stations, **bringing our combined total to almost 2,900.**

3,400
Scholars

2016 marked Petron Foundation's 20th anniversary. We celebrated this milestone with the college graduation of our first batch of Tulong Aral ng Petron (TAP) scholars. For SY 2016, TAP had **3,400 scholars complemented by 105 Petron schools.**



AHEAD OF THE GAME

Petron service stations, such as those along the Tarlac-Pangasinan-La Union Expressway (TPLEX), are welcome destinations for millions of Filipinos who travel across the country. They signify our unique understanding of our customers, which keeps us ahead of the game in all aspects of our operations including product and service offerings, operational efficiency, and market presence. This leadership drives us to explore new avenues for excellence moving forward, while steering the nation towards greater growth and progress.

Contents

Our Vision and Mission

To be the leading provider of total customer solutions in the energy sector and its derivative businesses

We will achieve this by:

- Being an integral part of our customers' lives, delivering consistent customer experience through innovative products and services;
- Developing strategic partnerships in pursuit of growth and opportunity;
- Leveraging our refining assets to achieve competitive advantage;
- Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence;
- Caring for the community and the environment;
- Conducting ourselves with professionalism, integrity, and fairness; and
- Promoting the best interest of all our stakeholders.


PETRON

We are Petron

Petron Corporation is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian market. We have a combined refining capacity of 268,000 barrels-per-day, producing a full-range of world-class fuels and petrochemicals to fuel the lives of millions of Filipinos and Malaysians.

Here in the Philippines, we supply nearly 40% of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan. This Integrated Management Systems (IMS) – certified facility processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals.

From Bataan, we move our products mainly by sea to over 30 terminals located across the archipelago. Through our robust distribution network, we fuel strategic industries such as power-generation, manufacturing, mining, agribusiness, among others. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through 2,300 service stations – the most extensive in the country – we retail gasoline, diesel, and autoLPG to motorists and the public transport sector. Our wide range of world-class fuels includes Blaze 100 Euro 5, XCS, Xtra Advance, Turbo Diesel and Diesel Max. We also sell our LPG brands Gasul and Fiesta Gas to households and commercial consumers through an extensive retail network.

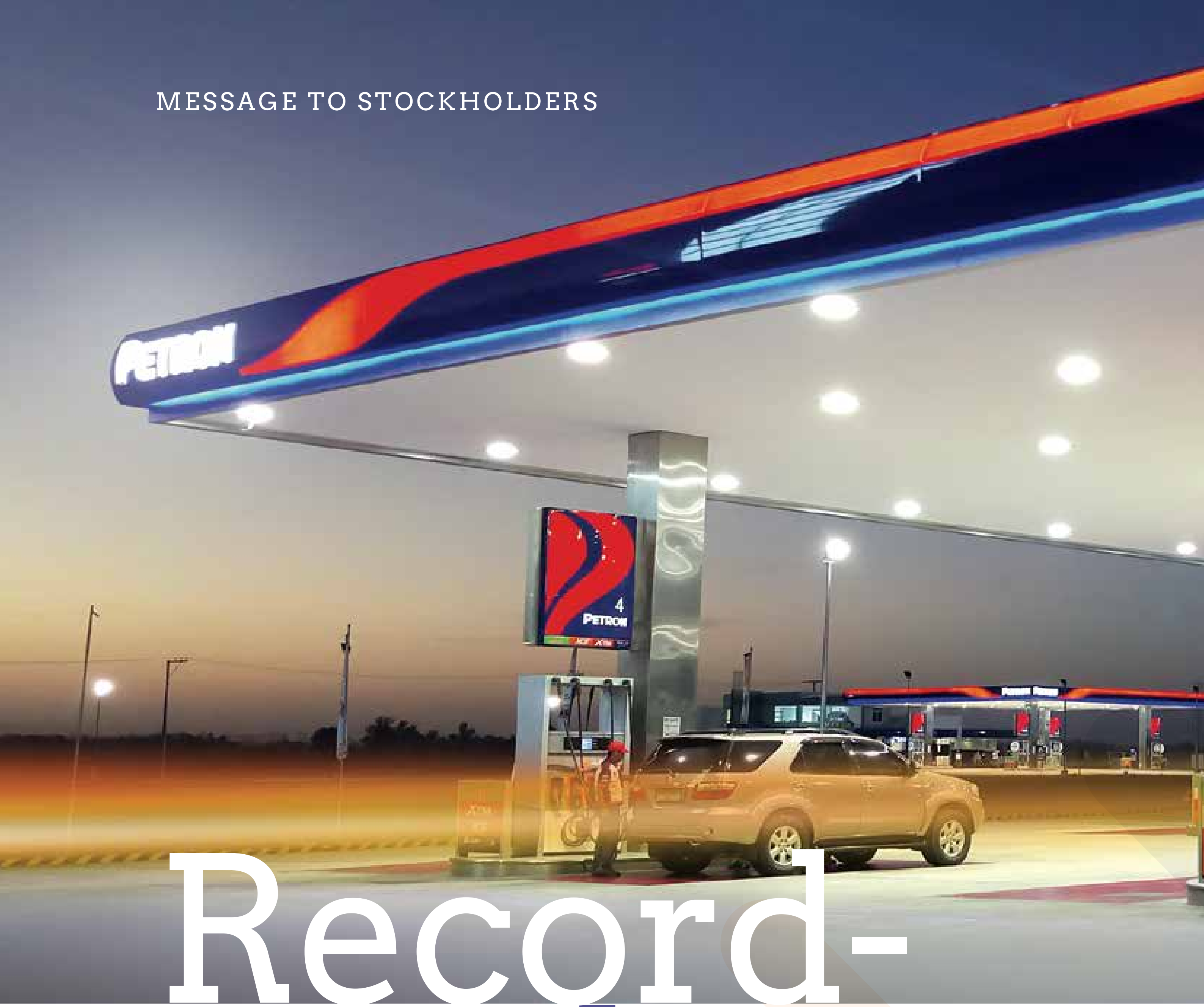
We source our fuel additives from our blending facility at the Subic Bay Freeport. This gives us the unique capability to formulate additives suited for Philippine driving conditions.

We have partnered with popular food and service locator chains to give our customers a one-stop, full-service experience. We have San Mig Food Ave stores in select stations that offer a wide variety of food, beverages, and personal items. We also re-launched our Treats convenience stores for motorists-on-the-go.

In line with our efforts to increase our presence in the region, we continue to expand our presence in Malaysia, which comprises an integrated refining, distribution, and marketing business. We operate an 88,000 barrel-per-day refinery in Port Dickson, 11 storage facilities and a retail network of 580 service stations.

As part of the San Miguel Group – one of the largest and most diversified conglomerates in the Philippines – we are committed to expand and grow our business to ensure that we have a positive impact in markets where we are present.

We are guided by our vision "to be the leading provider of total customer solutions in the energy sector and its derivative businesses."



Record-Breaking

We not only met our goals, we handily surpassed our targets.

This emboldens us to explore new avenues for excellence in 2017.

Eduardo M. Cojuangco, Jr.
Chairman

It was an exceptional year for your company and the only Filipino-owned oil major, Petron Corporation. We stayed well ahead of competition in every aspect of our operations – from our upgraded refining capabilities to our enhanced value chain to our innovative products and customer services – as we strived to anticipate the needs of our customers. Along the way, we established new records and milestones in the industry, in essence, setting the bar even higher as we sustained our unparalleled leadership.

Our sharp focus on key initiatives namely **profitable market leadership, optimal yields from our refinery production, operational excellence, and innovations** for our customers allowed us to navigate through headwinds that impacted on our business.

Our sharp focus on key initiatives namely profitable market leadership, optimal yields from our refinery production, operational excellence, and innovations for our customers allowed us to navigate through headwinds that impacted on our business. We continued to see volatile international oil prices weighed down by an oversupply as the world economy remained sluggish. As a result, the benchmark

Ramon S. Ang
President and Chief Executive Officer

> **Our undisputed market leadership has always been anchored on the world-class quality of our fuels** and our steadfast desire to give customers the best experience and benefits.

Dubai crude averaged US$41.27/barrel in 2016, 19% lower than the full-year 2015 average of US$50.91/barrel. Product "cracks" – the differential between crude and finished products – further narrowed during the period.

The success of our strategies speaks for itself as we thrived in the face of the challenges to come out ahead and enjoyed another banner year. The unrelenting and dedicated efforts of the entire organization resulted in an impressive performance for 2016, catapulting our company to a new growth trajectory.

Record-Breaking Performance

Records are made to be broken and these are done by people who seek to do better each time, a cycle of continuous improvement, setting more and more records in the process.

We posted a consolidated net income of P10.8 billion in 2016, a 73% increase from the previous year's earnings of P6.3 billion. Operating income grew by 31% to P23.8 billion from P18.1 billion in 2015. This is the best performance in Petron's 80-year plus history.

The project fully supported our record-high sales as we can now locally produce a full slate of cutting edge fuels that are environment-friendly and guarantee better mileage, thus putting more savings in our customers' pockets.

Our consolidated sales volumes in the Philippines and Malaysia reached 104 million barrels last year – the first time we breached the 100 million mark. This is a 6% growth from the 98 million sold in 2015. Both markets saw solid growth in key segments namely Reseller, Industrial, LPG, and Lubricants, with nearly all posting double-digit increases.

In our home country, domestic volumes grew by 10% hitting a record 48.2 million barrels in 2016. This is the highest level in company history. Sales of high-value products namely gasoline, diesel, and Jet A-1/ kerosene increased by 6.2 million barrels equivalent to a 14% growth, further cementing Petron's overall market leadership.

We faced even tougher competition and responded by further leveraging on our superior products and services and innovation mindset, going full speed with our market expansion. We completed 120 new service stations in our home country – more than any company – setting the stage for even stronger growth. Combined with our upgraded refining capabilities and value chain, this helped drive our domestic sales which grew 10%, far outpacing Philippine oil industry demand, which registered an 8.5% growth.

Our extensive retail network stood at 2,300 stations at the end of the year, which is bigger than our next three competitors combined. But our expansion didn't stop there. All over the country, our LPG brands Gasul and Fiesta Gas and automotive lubricants Ultron and Rev-X can be found in thousands of locations.

Our undisputed market leadership has always been anchored on the world-class quality of our fuels and our steadfast desire to give customers the best experience and benefits. This drove us to launch innovative products like the Petron Blaze 100 Euro 5, the first and only Euro 5 gasoline in the country, which meets stringent technology and emission standards.

To give customers a better experience, we leveraged on our unique advantage, which is the Petron Value Card (PVC), the first and only motorist card in the country that gives rewards and benefits that no other card can match.

Future Ready

2016 marked another milestone for the company as we fully commissioned our single largest investment – the US$2 billion Refinery Master Plan Phase 2 (RMP-2) at our 180,000 barrels-per-day Bataan refinery.

It is a game changer since it substantially increases our production of high-margin and in-demand fuels and petrochemicals, in step with the shifting petroleum market in the Philippines underscored by stronger demand for transportation fuels and cleaner, more efficient products. We are also generating savings while ensuring the country's fuel supply security as RMP-2 gives us the flexibility to refine various crude oil types, including heavier, cheaper grades.

The project fully supported our record-high sales as we can now locally produce a full slate of cutting edge fuels that are environment-friendly and guarantee better mileage, thus putting more savings in our customers' pockets.

This megaproject puts to fore the skill and ingenuity of Filipino engineers, completing the project in just over 40 months ahead of time, on budget, and a flawless safety record. This is a feat in itself given the complexity and the adoption of first-of-its-kind technologies. The Bataan refinery is proudly one of the most advanced in the region.

Petron is the first oil company to get Integrated Management Systems (IMS) certification for all its 30 terminals across the country. This means that all our facilities meet or exceed globally-recognized standards on workplace safety, environmental management, and process quality.

Towards the end of 2016, we acquired a 140MW co-generation power plant from sister company SMC PowerGen Inc. The facility located beside our refinery is expected to lower steam and power costs at our Bataan refinery. Moreover, it can utilize the petroleum coke we are producing as feedstock. Importantly, the power plant is one of the first plants in the Philippines to use clean coal technologies (e.g. Circulating Fluidized Bed), which reduces emissions by about 95% versus normal coal plants.

These strategic investments enable Petron to be a step ahead of the challenges as well as the opportunities provided by a flourishing economy and globalization. It likewise strengthens the foundation of our company as we explore the next round of investments to further sustain our leadership position.

Excellence Delivered

Our unprecedented expansion would not be possible without the strength and extent of our logistics value chain. We are doing it right in a manner that is timely, eco-friendly, and cost-efficient. Others talk the talk but we definitely walk the talk.

Petron is the first oil company to get Integrated Management Systems (IMS) certification for all its 30 terminals across the country. This means that all our facilities meet or exceed international standards on workplace safety, environmental management, and process quality. This, in turn, has allowed us to continue improving our operations, which ultimately benefits customers.

At the end of 2016, our storage facilities achieved a significant milestone by accumulating 72 million man-hours without lost time incidents.

We established more tankage in key facilities to absorb the additional production from RMP-2. Soon, we will have additional storage capacities in high-growth areas in Visayas and Mindanao. These likewise support our Business Continuity Plans to ensure supply reliability and flexibility in the event of any disruption.

A More Rewarding Journey

We also continued our rewarding journey in Malaysia, setting new milestones. Income levels hit the highest five years since we entered this dynamic market fueled by an increase in volumes. Our volumes in turn were driven by delivering excellent customer service, which is synonymous with the Petron brand. Sales in the key Retail and Commercial sectors grew substantially. Retail volumes remained strong with ongoing brand differentiation efforts. Increased demand from strategic sectors helped push commercial volumes as we remained a preferred partner to drive economic activity and growth.

We remained the innovation leader in Malaysia when we launched in 2016 the country's first and only RON 100 gasoline – the Blaze 100 Euro 4M – and Turbo Diesel Euro 5. To make our world-class fuels more accessible to more motorists, our retail network expanded to 580 stations by year-end and we have more in various stages of construction, ensuring that there is always a Petron station nearby.

Knowing that our success greatly depends on our ability to build lasting relationships, we continuously strive to better understand and cater to our customers' evolving needs.

Creating Value for Others

Petron is an intrinsic part of society. We create and deliver great and essential products and services. We add value to the lives of our employees, business partners, and shareholders producing thousands of jobs. Along the journey, we are given the tremendous opportunity to also add value to our communities and society as a whole. We aspire to this higher order purpose and use our business as a platform for good.

Along the journey, we are given the tremendous opportunity to also add value to our communities and society as a whole. We aspire to this higher order purpose and use our business as a platform for good.

2016 marked the 20th year of Petron Foundation. It was only fitting that we welcomed several Tulong Aral ng Petron (TAP) scholars into our organization. For 14 years, we nurtured their growth as they completed their education all the way through college with various honors. Since we started this program in 2002, we have sent 12,000 marginalized children through school. This year, we expect our first TAP engineering scholars to be our colleagues. By adding value to the lives of others, we are also adding more value to our own business.

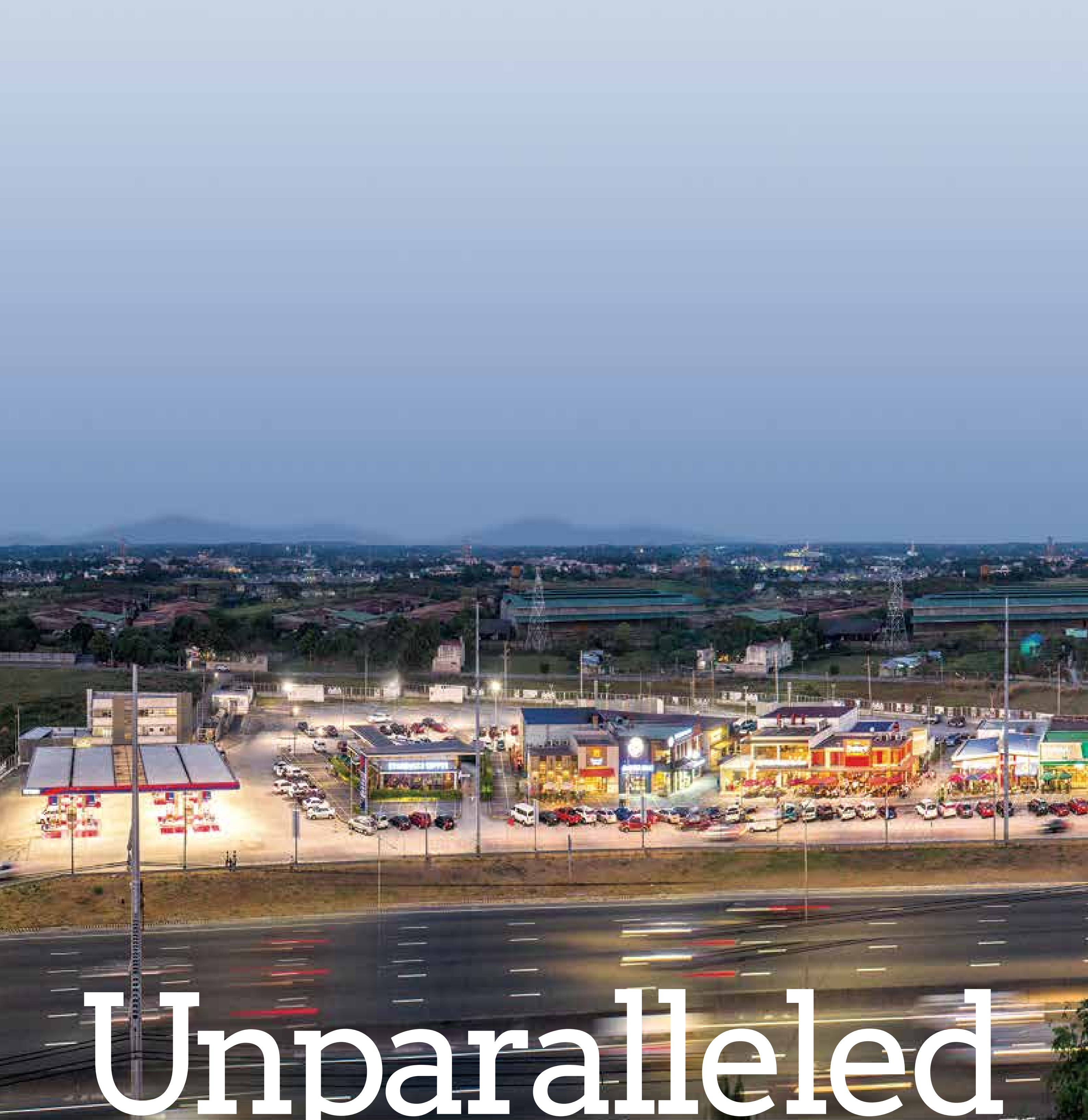
On the environmental front, we became part of history when we participated in the Guinness World Record under the category "Most Trees Planted in One Hour of Unlimited Size in a Single Location." Petron volunteers helped plant 223,390 trees in the province of Bataan, surpassing India's record of 208,571. We have planted some 700,000 seedlings and mangroves over the past several years and we aim to approach the one million mark soon.

The next few years will be incredibly rewarding to our business as we engage and uplift more communities through our various education, entrepreneurship, and environmental programs. This allows more people to generate economic activity that creates more demand for our products. Clearly, the long-term sustainability of our business is linked to the amount of good that we do.

All told, our efforts in 2016 have allowed us to stay way ahead of the game. What's more, this sets the stage for us to do even better in 2017. We remain grateful to our shareholders, business partners, customers, employees, and our communities for continuing to help us in being a more responsible, transparent, and caring company. Sustaining our leadership position means being the barometer for excellence and setting the standards for the industry. We will demand more from ourselves and accept nothing less. This you can definitely count on.

Eduardo M. Cojuangco, Jr.
Chairman

Ramon S. Ang
President and Chief Executive Officer

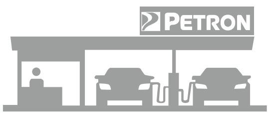


Unparalleled Leadership

Petron cemented its position as the undisputed leader and pacesetter in the Philippine oil industry in 2016.

Miles Ahead

True market leadership lies in being able to anticipate and satisfy the unique needs of every consumer. As a Filipino-owned petroleum company, we are equipped with an intimate understanding of the market, allowing us to remain a thought and industry leader in the rapidly evolving Philippine oil landscape. This is a testament to our steadfast commitment to excellence and innovation. This is what keeps us ahead of the game.



120
New Service Stations

Despite increasingly aggressive competition, we maintained the largest network of service stations in the country and expanded this further by completing 120 new stations, ending the year with close to 2,300. Anticipating the needs of motorists who require more than just refueling, we constructed new **Treats** stores and increased the number of food and lifestyle locators to 172. This, among others, is our way of responding to the increasing volume of vehicles as we aim to give motorists a convenient and satisfying experience on the road.

To meet the demand for **Gasul** and **Fiesta Gas**, we added about 600 new stores and exclusive retail outlets to end the year with more than 8,400 outlets, giving more Filipino households access to safe and quality LPG products.

As a Filipino-owned petroleum company, we are equipped with an intimate understanding of the market, allowing us to remain a thought and industry leader in the rapidly evolving Philippine oil landscape.

Our service station network in the Philippines stood at 2,300 for 2016. This is complemented by over 4 million Petron Value Card holders, giving us substantial volumes and repeat sales.

We rewarded our top customers, giving them more benefits, with the launch of the Petron Value Card (PVC) Titanium.

We teamed up with Uber, the world's leading ride-sharing application, to give thousands of Uber partner drivers in Metro Manila more incentives when using the Uber Petron Value Card.

Petron restrooms underscore our commitment to total customer service as they exemplify cleanliness and accessibility.

4million
PVC Users

We also saw an increase in our industrial volumes due to renewed supply agreements and major account acquisitions, reaching almost 1,100 customers in strategic sectors. In particular, we maintained our lead in the aviation sector as the supplier of choice among leading local and international carriers. Such developments highlight the superior quality of our products and after-sales services that separate us from the rest.

Our rewards programs remained unmatched and were made even more relevant as we took on new groundbreaking initiatives. We entered into strategic partnerships with GetGo, AirAsia, SM Cinemas, Puregold, and Treats to provide **Petron Value Card (PVC)** holders more opportunities for points conversion. Industry leaders like Banco De Oro, Honda, and Uber have realized the convenience and benefits of PVC and are now proud partners.

Recognizing our top PVC users, we rolled out the **PVC Titanium Card,** which gives cardholders additional points on top of the regular 1-peso per point for every P250 fuel purchase. Titanium cardholders also get exclusive perks such as free tire black at select stations, invites to exclusive events, and bonuses from premium merchants to name a few.

With these new programs and privileges, PVC users in 2016 totaled over 4 million, which account for a substantial amount of reseller volumes.

On fuel innovation, we continued to blaze the trails in providing world-class and eco-friendly fuel products. We put our specially-formulated Euro 4 fuels **XCS** and **Turbo Diesel** to the test in the country's first-ever Euro 4 Fuel Economy Run mounted by the Department of Energy (DOE). As always, we delivered better-than-expected results as 71% of the participating vehicles achieved at least 20 kilometers per liter, confirming the **TriAction** performance advantages of our Euro 4 fuels namely better engine protection, better mileage, and better power.

Our clients in the LPG sector include the country's top hotels, proving the safety and reliability of Gasul.

To increase the competitiveness of our products both locally and internationally, **we obtained certifications and approvals from globally-accepted licensing organizations and Original Equipment Manufacturers.**

Our high-performance Turbo Diesel is the preferred brand among SUV enthusiasts in this station in Ayala Alabang.

We raised the bar even higher by introducing the Blaze 100 Euro 5 – the most advanced and the only 100 octane premium gasoline in the country.

We raised the bar even higher by introducing the **Blaze 100 Euro 5** – the most advanced and the only 100 octane premium gasoline in the country. Blaze 100 Euro 5, with its significantly lower sulfur content, revolutionized the fuel industry as it is considered the best gasoline in the market in terms of power, efficiency, and reduced emissions. It also re-affirmed our promise to contribute to the country's efforts to address environmental concerns.

We also cater to the specific needs of our clients by providing creative customer solutions. To meet the requirements of industrial clients, we developed a special formulation of trunk pistol engine oil designed for the lubrication of high and medium speed trunk piston engines using diesel fuel. Aside from this, we also launched a new line of engine oils and greases catering to different Automotive Original Equipment Manufacturers (OEMs), as well as new high tier and high performance products that guarantee excellent performance despite extreme temperature and service operating conditions. These include **Petron Blaze Racing High Temperature Protection (HTP), Petron Rev-x Turbo HTP,** and **Petron ATF Premium HTP.**

Meanwhile, we also continued to offer technical assistance to Petron Malaysia through the development of fuels and lubricants, product marketing campaigns, and in their compliance with the Globally Harmonized System (GHS).

To increase the competitiveness of our products both locally and internationally, we obtained certifications and approvals from globally-accepted licensing organizations and OEMs. A number of our products have already been certified in China, Malaysia, Brunei, and Cambodia, and we are continuously looking for new opportunities for expansion.

Our record sales volumes, in tandem with our operational efficiency and aggressive expansion efforts, boosted our financial performance to unprecedented levels. We achieved the highest Philippine domestic volumes in company history at 48.2 million barrels, up 10% from 2015 and higher than the country's 8.5% Philippine demand growth. All our high-value products (e.g. gasoline, Jet-A1) also continued to perform above expectations, posting double-digit increases versus the previous year.

TRIED AND TESTED IN ACTUAL ROAD CONDITIONS

Steven Yu

From the most stringent tests to the most discerning experts, our world-class products consistently deliver beyond expectations.

This promise was again validated in the country's first ever Euro 4 Fuel Economy Run led by the Department of Energy (DOE) wherein over 20 car companies in the Philippine market fielded a total of 70 models of various body types and engine displacements to test their efficiency using **Petron's Euro 4 fuels**.

Fueled by **Petron XCS (95-RON)**, 27 out of 38 gasoline vehicles or a significant 71%, produced fuel economy ratings exceeding 20 kilometers for every liter. For vehicles powered by **Petron Turbo Diesel**, 21 out of 32 participants (66%) achieved over 20 km/L. The best performances were registered by a **Petron XCS**-loaded Suzuki Celerio with 29.14 km/L, and a Petron Turbo Diesel-boosted Isuzu D-Max, which achieved 38.46 km/L.

"The results stunned me! Over half of the participating vehicles achieved 20+ km/L figures, without any modifications or special driver training. These results would have been impossible just 15 years ago," revealed multi-awarded motoring journalist and C! Magazine Special Projects Editor Steven Yu, who observed the economy run.

Steven frequently participates in similar activities as a driver and therefore has a deep understanding of the techniques to achieve maximum fuel economy from any vehicle. A self-confessed Petron user, he believes Petron's specially-formulated Euro 4 fuels were a factor getting these results. "The Tri-Action qualities – particularly the improved lubrication quality – of Petron's Euro-4 fuels were instrumental in helping the participating vehicles achieve such commendable fuel economy figures," he said.

Given our long-standing promise to give consumers the best outcome in terms of mileage, engine protection, and power, these results spell good news for ordinary car owners. "Simply put, it means that the impressive results obtained during the DOE-Petron Euro 4 Fuel Economy Run are real-world and can be replicated without special vehicle or driver preparation. Just get into your modern vehicle, drive conscientiously, and your own vehicle's fuel economy figures should be close to what our results were," affirmed Steven.

Redefining Excellence

Full Commercial Operations of RMP-2

Petron pushed the envelope of innovation further when it embarked on its biggest project to date - the US$2-billion **Refinery Master Plan Phase 2 (RMP-2)**. It was a bold and strategic move that laid stronger foundations for future growth as evidenced by our accomplishments today.

At the start of the year, our Petron Bataan Refinery (PBR) reached another milestone as RMP-2 went into full commercial operations. This latest development significantly improved the Bataan refinery's ability to process cheaper crudes from a variety of sources and to produce more high-value petroleum products and petrochemicals.

As a result, we were able to reduce costs, while further increasing our sales volumes and market presence. We also continued to lessen our country's dependence on finished product imports and instead, offer customers world-class fuels that are tested and formulated locally, ensuring their quality and consistency.

Petron pushed the envelope of innovation further when it embarked on its biggest project to date - the US$2-billion Refinery Master Plan Phase 2 (RMP-2). It was a bold and strategic move that laid stronger foundations for future growth as evidenced by our accomplishments today.

PBR's state-of-the-art control room oversees the complex operations of the newly commissioned units.

40%

Growth in Polypropylene Sales

Besides fuels, RMP-2 was also instrumental in boosting our petrochemical production, which supports many strategic sectors. We were able to capitalize on this as we grew our polypropylene sales by nearly 40%.

With the increasing demand and profitability of petrochemical products, RMP-2 gives us the flexibility to shift the production modes of our catalytic cracking units to either propylene or gasoline mode, resulting in better margins.

Upholding the highest standards in refining technologies, PBR sustained its Integrated Management System (IMS) certification for the 8th straight year. For the first time, RMP-2 was included in the scope of the IMS external audit, and we give credit to our engineers for their expert oversight of all refinery units, which successfully passed all surveillance audits conducted by TÜV SÜD PSB Philippines Inc.

Upholding the highest standards in refining technologies, **PBR sustained its Integrated Management System (IMS) certification for the 8th straight year.**

Setting the Highest Standards

100%
of Terminals are IMS-Certified

Being the country's largest oil refining and marketing company, we are faced with the constant challenge of delivering our products safely, efficiently, and without delay. By continuously enhancing our systems and processes, we maintained our competitive edge and ensured our compliance with the highest local and international health, safety, and environmental standards.

As a testament to our operational efficiency, 100% of our terminals received the globally-recognized Integrated Management Systems (IMS) certification in 2016, speaking volumes of our workplace safety, process quality, and environmental management practices.

All 17 of our pier facilities were certified by the Department of Transportation (DOT) and complied with the International Ship and Port Facility Security Code (ISPS Code) as mandated by the International Maritime Organization (IMO) of the United Nations. Our 12 terminals likewise passed the security assessment conducted by the Office of the Transport Security Compliance Group.

Our Tacloban Terminal adopts stringent environmental practices including efforts to rehabilitate the mangrove forests facing the Leyte Gulf.

2016 Environmental Health and Safety Performance

Management Systems	
Integrated Management System	29 Terminals
Occupational Health/Safety Management System, OHSAS 18001:2007	PBR 29 Terminals
Quality Management System, ISO 9001	PBR 29 Terminals
Environmental Management System, ISO 14001	29 Terminals
International Ship & Port Facility Security	17 Terminals

Greening Programs	
Project CODy	Reduced and optimized water consumption in PBR
Depot Ecowatch Program	Encompasses six environmental areas in its assessment: • Wastewater Quality Management • Air Quality Management • Solid Waste Management • Toxic and Hazardous Waste Management • Environmental Impact Assessment • Environmental Management System

2016 Environmental Certificates and Awards	
Gold Rated facilities in the 2016 Depot EcoWatch Program, the highest possible rating for compliance, pollution prevention, and continuous improvement	Bawing Terminal Tagoloan Terminal Mandaue Terminal
DOLE Tripartite Certificate of Compliance with Labor Standards	Navotas Terminal
DOLE Recognition as a Child-Labor Free Establishment	Iligan Terminal
DOLE Recognition for Compliance with Occupational Health and Safety Standards	Mandaue Terminal, Bawing Terminal
DOLE Recognition for Compliance with General Labor Standards	Mandaue Terminal
DOLE Gawad Kaligtasan at Kalusugan (GKK) National Awardees	Nasipit Terminal, Gasul-Legazpi Terminal, Tagoloan Terminal
DOLE Gawad Kaligtasan at Kalusugan (GKK) Regional Awardees	Zamboanga Terminal, Rosario Terminal
DENR GAWAD Awardee	Iloilo Terminal
DENR Industrial Ecowatch Silver Awardee	Bawing Terminal
Trained under Petron's nationwide Basic Pollution Control program recognized by the DENR-EMB in preparation for Pollution Control Officer accreditation	162 Petron Service Station dealers, personnel, and contractors
Implementing the Environmental Management System (ISO 14001)	15 Petron service stations in NCR, Cebu, General Santos, and Davao
Recipients of the 2016 Petron Green Service Station (GreenSS) Awards	Four Petron service stations in Quezon City, Cebu, South Cotabato, and Tarlac

Our commitment to safety allowed us to accumulate 72 million man-hours without lost time incidents in our terminal operations by the end of 2016.

With our aim to increase the efficiency and safety of our secondary distribution, we continued with the Tank Truck Modernization program, which is 80% complete. These newer trucks enable sustained deliveries to our customers.

To ensure that we are prepared in times of emergencies, we conducted safety seminars and training on live fire control, oil spill response, and advanced fire brigade competency and NEBOSH Oil and Gas training. Overall, we implemented 23,000 safety training hours among employees of Petron, its sister companies, contractors, and dealers.

We also participated in industry-wide activities such as oil spill response exercises through service provider Waterborne Industry Spill Equipment (WISE) Philippines, as well as business continuity planning through the Philippine Institute of Petroleum Industry Emergency Response (PIP-IERO). In addition, periodic inspections of firefighting and oil spill response equipment, along with regular emergency drills and exercises guaranteed the safety and emergency preparedness of our facilities. In 2016, our emergency preparedness was put to the test as our terminals in Rosario, Cavite, Tagoloan, and Zamboanga successfully responded to fire incidents in nearby communities.

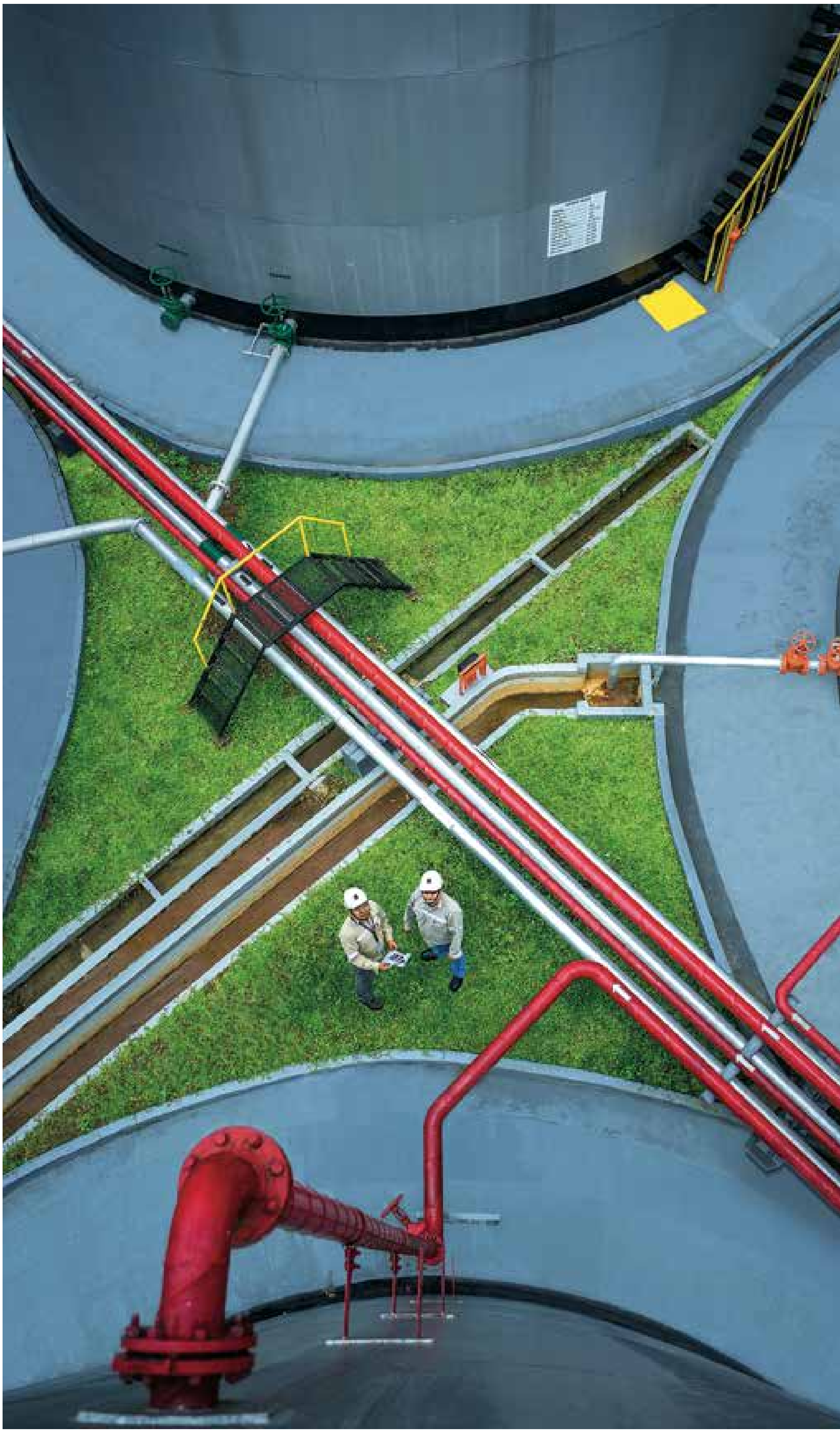
Our commitment to safety allowed us to accumulate 72 million man-hours without lost time incidents in our terminal operations by the end of 2016. Moreover, three of our terminals were recognized by the Department of Labor and Employment (DOLE) in the 10th *Gawad Kaligtasan at Kalusugan* (GKK) Awards with our terminals in Nasipit and Legazpi (Gasul) winning a Gold rating, and our Tagoloan terminal taking home a Bronze. Regional GKK Awards were also awarded to our terminals in Zamboanga and Rosario, while our Zamboanga terminal manager finished as a finalist in the individual category.

Similarly, our Iligan Terminal was declared a Child Labor-Free establishment by DOLE Region X, while our Mandaue Terminal was awarded with a Certificate of Compliance on General Labor Standards, as well as a Certificate of Compliance on Occupational Health and Safety Standards by DOLE Region VII. Our Bawing Terminal also earned a Certificate of Compliance on General Labor Standards from DOLE Region XII.

Safety and efficiency remain our foremost commitment in every aspect of our operations and extends to benefit the communities that surround us.


PETRON
FREEPORT
CORPORATION
T-9002


PETRON



Our Competitive Edge

> We believe that investing in our people and in technology also means investing in our future.

We believe that investing in our people and in technology also means investing in our future. Thus, we took every opportunity to prepare our next leaders, fill competency gaps, as well as adopt the latest technologies to help us sustain our leadership position.

To further drive the business, we welcomed over 300 new employees, closing the year at 2,500. Given the increase in headcount and the continuously changing employee demographics, we fortified the knowledge and competencies of our people, who we consider our most valuable assets.

We increased the average number of training hours per employee by 24% as we offered comprehensive training development and career progression opportunities. To strengthen the skills of our leaders and keep them up to speed with the latest management trends, we conducted seminars on contemporary coaching and mentoring.

We nurture our workforce through tailored and competitive benefits packages, work-life integration activities, and a secure working environment. As an advocate of health and safety, we expanded the reach of our health coverage to dependents and communities. Our comprehensive medical assistance

Training Hours for Petron Philippines Employees

	2016	2015	2014
Average hours of training per year per employee	**61**	49	45
Total training hours for all Petron employees	**151,080**	114,884	10,568

2016 Social Performance

Labor Practices	Health and Safety	Human Rights	Product Responsibility
2,459 Number of Employees (Philippines)	**6 million** Safe-man hours for PBR	**Zero** Incidence of child labor in any aspect of operations	**84,465** Feedback and inquiries received and handled by Petron Customer Interaction Center (PCIC)
8.21% attrition rate, lower than industry's 15% attrition rate	**72 million** Safe-man hours for Operations	**Zero** Incidence of discrimination in any aspect of operations	
100 Percentage of employees receiving regular performance reviews		**Zero** Operations and Suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk	

We took every opportunity to prepare our next leaders, fill competency gaps, as well as adopt the latest technologies to help us sustain our leadership position.

includes regular examinations, vaccinations, health advisories, and education to lessen work-related hazards across the organization.

As we invest in our people, we also invest heavily in new technologies. We upgraded our Vendor Managed Inventory System in majority of our depots to give dealers and customers quick access to forecasts and orders through SMS and email. We also raised the level of security in our facilities and made our motorists feel safer whenever they visit our service stations though the installation of more than 100 CCTV cameras in high traffic areas.

To support the expanding requirements of the company, we rolled out our Enterprise Asset Management system allowing the automation of assets, service, and materials requirements delivery to service stations. We also upgraded our Procurement System to improve our order and delivery workflow.

At the end of 2016, we rolled out our Expanded Inventory Driven Delivery System (IDDS) in 22 locations nationwide to ensure that all our retail and industrial customers are served in a timely and cost-effective manner. Some features include automated delivery scheduling and automated data exchange between supply and demand software.

The strength of our operations and organization reflects our financial viability. This is affirmed by the PRS Aaa rating given to us by PhilRatings for our listing of P20 billion worth of Fixed Rate Bonds to retail investors. Obligations rated PRS Aaa are of the highest quality with minimal credit risk.

This amount represents the base offer of P15 billion and the oversubscription of P5 billion, and was the first tranche of our company's shelf registration of P40 billion of Fixed Rate Bonds.

Reaching New Heights in Malaysia

The year 2016 was also a year of record growth and notable achievements for Petron Malaysia. We further stepped up our game in this highly competitive market resulting in our strong financial and operational performance – a positive indication that we are on track with our goal to become a major player in the region.

In keeping with our position as the industry's pacesetter, we launched two of our latest and most-advanced fuels in the Malaysian market. We introduced the country's first and only RON 100 gasoline – the **Blaze 100 Euro 4M** – which is the highest grade motor gasoline in all of Malaysia. We also unveiled the new **Turbo Diesel Euro 5**, an eco-friendly fuel that guarantees improved engine performance and better mileage.

Accelerating our progress, we built new service stations in the country and ended the year with a retail network of 580 stations. Our network expansion program enabled more Malaysian entrepreneurs to participate in the downstream business and created more jobs and economic opportunities. This was complemented by the construction of new **Treats** convenience stores, now totaling 269. We also partnered with more fast-food restaurants, banks, and other service providers.

We further stepped up our game in this highly competitive market resulting in our strong financial and operational performance – a positive indication that we are on track with our goal to become a major player in the region.

580
Service Stations Across Malaysia

The aviation sector remained a key market as we continued to serve multinational and regional carriers through our aviation terminal at the Kuala Lumpur International Airport.

We continued to develop unique campaigns and give loyal customers access to special rewards and privileges using the **Petron Miles** program, which now boasts over 4 million members. We rolled out our new **Petron Prepaid Fleet Card**, keeping in mind customers from the small to medium enterprise segment to help them manage their fleet through cashless payment. This effort resulted in 3,000 new Petron Prepaid Fleet Card users in our roster.

Through our commercial fuels and LPG, we helped sustain one of the most thriving economies in Southeast Asia as we power major industries namely transportation, manufacturing, construction, mining, agriculture, fisheries, and power-generation. The aviation sector remained a key market as we continued to serve multinational and regional carriers through our aviation terminal at the Kuala Lumpur International Airport.

Petron Gasul, meanwhile, continued to be a top brand among Malaysian households as demand for our clean-burning LPG remained strong. We also increased our share of commercial and industrial clients through the re-introduction of 50kg LPG cylinders.

As we put a premium on operational excellence and efficiency, we invest in new facilities and ensure their safety and efficiency. We commissioned a new hydrant dispenser to improve our fueling facilities at the Kuala Lumpur International Airport in response to the increasing demand in the aviation sector. We also completed upgrades at our Bagan Luar Terminal in Penang and at our 88,000 barrels per day refinery at Port Dickson. The latter, along with the Port Dickson Terminal, received its ISO-9001 certification in 2016.

Despite being the newest player in the Malaysia market, our products and safety practices were rewarded by prestigious award-giving bodies. We won Silver in the Putra Brand Awards' fuel and lubricants category, and also bagged the Malaysian Society for Occupational Safety and Health Gold Award from the Department of Safety and Health for seven of our terminals.

Our ability to be resilient in the face of a volatile and challenging market led to our success in 2016. As we scale greater heights, we are inspired more than ever to replicate, if not surpass, the same success moving forward.

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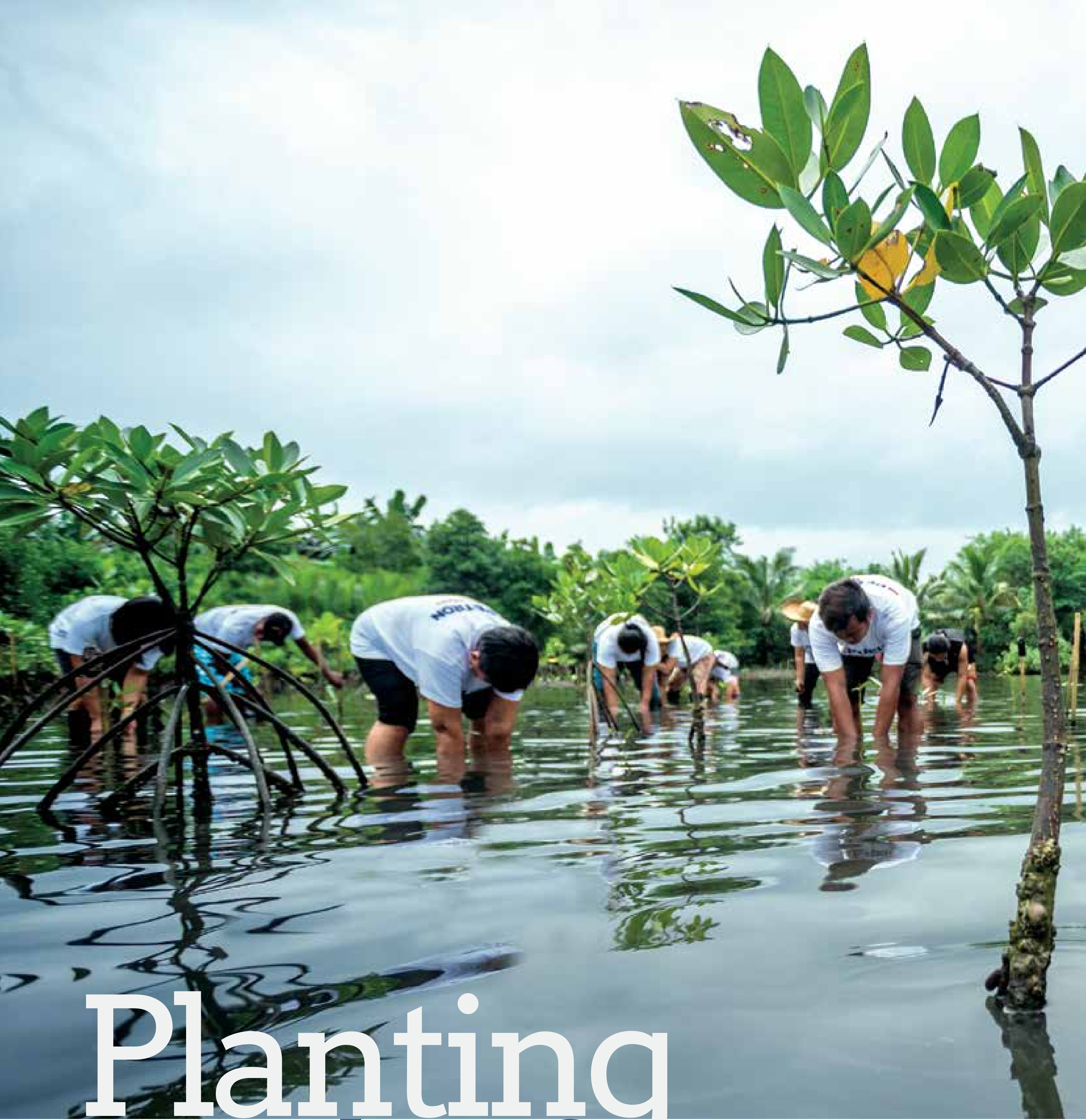
The cutting edge Blaze 100 Euro 4M is a first-of-its-kind motor gasoline in Malaysia.

In just one year, we doubled our Petron Miles Privilege cardholder base to 4 million.



Planting Seeds of H.O.P.E.

Through our Petron Foundation, which marked its 20th year in 2016, **we stayed at the forefront of nation-building** through various education, environment, health, and stakeholder engagement programs.

Driven to Serve

Petron has always espoused the value of giving back as it counts Corporate Social Responsibility (CSR) among its priorities. Through our Petron Foundation, which marked its 20th year in 2016, we stayed at the forefront of nation-building through various education, environment, health, and stakeholder engagement programs. These initiatives under our banner advocacy Fueling H.O.P.E. (Helping Overcome Poverty through Education) benefit countless Filipinos and contribute to the sustainability of our company.

Over the last 14 years, we have been providing scholarship grants to underprivileged students through ***Tulong Aral ng Petron* (TAP)**. At the beginning of SY 2016, we had nearly 3,500 scholars from elementary to college in partner schools in Metro Manila and different provinces. Last year, nearly 400 TAP beneficiaries graduated including seven of our pioneering scholars who earned college degrees. We have since welcomed three of them in our company as full-time employees. Besides providing scholarships, we built 150 Petron Schools by end-2016 and have helped repair more than 1,600 classrooms since 2007 through the Department of Education's (DepEd) *Brigada Eskwela*.

We also celebrated the graduation of our first batch of **Automotive Care Education (ACE)** scholars, who are now TESDA-certified mechanics with almost all our graduates guaranteed jobs at Petron Car Care Centers. Launched in 2015, ACE provides free technical-vocational education in automotive servicing to deserving students at Guzman College of Science and Technology.

At the beginning of SY 2016, **we had nearly 3,500 scholars from elementary to college** in partner schools in Metro Manila and different provinces.

Deserving students from our fenceline communities such as Tacloban City (opposite page) and in Metro Manila can look forward to a better future through our Tulong Aral ng Petron send-a-child-to-school program.

High school students also continued to learn about back-office operations and the rudiments of food service at select Petron stations through **YIELD (Youth in Entrepreneurship and Leadership Development)**. In 2016, 100 students from Muntinlupa Business High School completed the program, increasing our number of graduates to 1,200.

We also worked alongside DepEd and the United States Agency for International Development (USAID) in improving the level of basic education in the country. This is part of our continuing efforts to help the reading program *Basa Pilipinas* (Read Philippines).

As we fulfill our role in protecting the environment, we sustained our leadership in the Bataan Integrated Coastal Management Program (BICMP) in partnership with the Provincial Government of Bataan and the United Nations Development Programme. The BICMP completed the draft of the province's State of the Coasts Report to help the government assess and report their Integrated Costal Management programs.

Through the Bataan Coastal Foundation, we sponsored the 2016 *Pawikan* Festival, an annual activity of the Bataan Provincial Government aimed at protecting endangered marine turtle species, three of which nest in the town of Morong. Efforts to protect the watershed of Limay through reforestation also continued in collaboration with the local government and the people's organizations.

Aside from these, we also partnered with the City of Tacloban in adopting five hectares of its coastline for mangrove reforestation. We are in the process of adopting additional areas in the provinces of Roxas and Ormoc in support of DENR's National Greening Program.

Through our joint efforts with San Miguel Foundation, we nurture the country's next generation of marine environment experts. In 2016, three of our scholars under the University of the Philippines Marine Science Institute's Professional Masters program in Tropical Marine Ecosystems Management graduated and are now armed to develop and implement the company's environmental programs.

Former TAP scholars (from left) Danica Ramirez, Queenie Vargas, and Karen Carillo begin a new journey as Petron employees.

Coming Full Circle

For the past 15 years, Petron has given thousands of young dreamers a reason to hope for a brighter future through *Tulong Aral ng Petron* (TAP), the company's long-running CSR program that helps send underprivileged children to school.

The year 2016 was particularly special as seven of our pioneering scholars graduated from college, with three of them now officially part of our workforce.

Danica Ramirez, Queenie Vargas, and Karen Carillo, who were TAP scholars from grade school to college, now proudly walk the halls of Petron as full-time employees. Danica is an executive assistant at our Human Resources Department, while Karen works as an accounting clerk at our Controllers Department. Queenie performs sales reconciliation for our National Sales in Pandacan, Manila.

Driven by our desire to make our nation stronger, we celebrate their success and those of the tens of thousands whose hopes and dreams Petron has fueled.

Together with our partners, the Department of Social Welfare and Development (DSWD), Department of Education (DepEd), the Philippine Business for Social Progress (PBSP), and World Vision Development Foundation, we have sent over 12,000 children to school since 2002, providing them with books, school supplies, shoes, uniforms, and daily meal allowances.

We also support their parents with capability-building and livelihood programs to create a more sustainable impact in their lives. Truly, doing good makes good business sense.

We also continued to do our part in promoting safety on the road and in the communities we serve.

Petron Foundation also undertakes projects meant to uplift the lives of our fenceline communities. We partnered with the *Samahang Alangan at Lamao para sa Pag-Unlad, Inc.* (SALAPI) to supply the Petron Bataan Refinery's rag requirements. The same group, which was created through the *Sulong Pangkabuhayan* livelihood assistance project, has been producing doormats for local markets. The mothers of our TAP scholars from Rosario, Cavite also learned how to make rags and have set up a cooperative with the help of the LGU. They now supply rags to Petron Rosario Depot and the local market.

True to our promise of fueling hope, we responded to the call for disaster relief in the wake of major calamities. In 2016, we donated P4.5 million worth of building materials through the Philippine Business for Social Progress (PBSP) for families displaced by super typhoon *Lawin* in Cagayan. Petron Foundation also helped in the distribution of repair kits for 300 families in the towns of Tuao, Enrile, and Amulong, with each beneficiary receiving P15,000 worth of construction materials.

We also continued to do our part in promoting safety on the road and in the communities we serve. The positive feedback we received from dealers and customers encouraged us to expand our *Lakbay Ligtas* program across 300 more Petron stations in Luzon, as well as in Visayas and Mindanao, only a year after its launch. *Lakbay Ligtas* is a landmark partnership with the Philippine National Police (PNP) enabling the PNP to immediately respond to emergencies through police outposts in key Petron stations.

We also continued with our *Lakbay Alalay*, the longest-running motorist assistance program in the country. Lakbay Alalay celebrated 30 years of providing safety assistance and road safety awareness to motorists with the program now spanning across the country and all year-round.

In partnership with the Philippine National Police, *Lakbay Ligtas* became nationwide in scope in 2016.

Our commitment to contribute to economic progress and sustainability is also being felt in Malaysia.

Our commitment to contribute to economic progress and sustainability is also being felt in Malaysia.

In line with the *Kempen Bumi Hijau* (Green Earth Campaign), we conducted tree-planting activities in partnership with LGUs, communities, and NGOs to promote environmental conservation. Internally, we have adapted eco-friendly practices to help cut down costs and energy consumption.

To promote environmental conservation and awareness, Petron Malaysia partnered with different LGUs, communities, and NGOs for the *Kempen Bumi Hijau* tree planting activity.

2016 Petron Philippines Corporate Social Responsibility Performance

Education	Environment	Community
3,390 *Tulong Aral ng Petron* (TAP) scholars (elementary to college) for SY 2016-2017	**38** Tree planting activities by the terminals	**100** Percentage of Petron terminals undertaking social development and initiatives
390 TAP graduates (elementary and high school) in March 2016	**256,859** Mangrove propagules and seedlings planted	**34,556** Hours spent on volunteer work
100 Number of additional scholars in Luzon and Visayas as part of TAP expansion	**51 km** Length of coastline cleaned from coastal cleanup activities	**6,000** Average number of residents of Limay, Bataan and Pandacan, Manila served annually in Petron clinics
Over 12,000 TAP scholars (since Year 1)	**9** Number of *esteros*/water bodies adopted	**Over 400** Beneficiaries of Petron's Livelihood Loan Assistance Program in 2016
107 Petron Schools and *Silid Pangarap* pre-schools built (since 2002)		
242 Classrooms repaired/ refurbished under *Brigada Eskwela* in 2015		
10,096 Teachers, school heads and administrators trained on effective early grade reading instruction		
1,200 Muntinlupa Business High School 3rd year students who took part in the on-the-job training under Petron's Youth in Entrepreneurship and Leadership Development (YIELD) program		

We continue to inspire young Malaysians to promote their culture and heritage through art with Vision Petron.

To fuel hope is our promise as we reach out to our communities and stakeholders. **Ingrained in our corporate DNA, it is what drives us to serve, to make a difference, and to fulfill more than our fair share in building a stronger, better, and more progressive nation.**

Similar to our efforts back home, our service stations in Malaysia with the help of the Royal Malaysia Police have become safety hubs for motorists due to the increased police presence, and the readiness of our personnel to give dependable and timely assistance.

Through our partnership with Universiti Putra Malaysia, we sought the expertise of their Road Safety Research Center (RSRC) to do a study on the riding habits of motorcyclists and ways to improve them. Knowing that proper maintenance is vital in saving lives, we conducted maintenance inspection for about 2,500 vehicles across our network.

To encourage students to celebrate and embrace their culture, we continued to mount the Vision Petron Art and Painting Competition. We also honored the achievements of the youth of Negeri Sembilan, who have shown excellence in either academics, sports, or the arts.

To fuel hope is our promise as we reach out to our communities and stakeholders. Ingrained in our corporate DNA, it is what drives us to serve, to make a difference, and to fulfill more than our fair share in building a stronger, better, and more progressive nation.

From Tambay To Top Mechanic

Almer John "AJ" Maulas was a self-proclaimed "tambay" (out-of-school youth) before landing a slot in Petron's Automotive Care Education (ACE) program.

After taking on a string of odd jobs in Bicol, Quezon province, and Metro Manila, he was accepted in the five-month TESDA-certified National Certificate (NC) II course for automotive mechanics at the Guzman College of Science and Technology (GCST) as part of its pioneering batch.

There, he completely transformed into a focused and diligent student. AJ even surprised himself when the batch elected him as class president. Graduating valedictorian, he was employed at the Petron Capitol 8 Car Care Center a few months after passing his NC II licensure. He was promoted to Service Adviser just a month after.

From a *tambay* to a top mechanic, AJ is gradually living the life he has always dreamed of, starting with the small house he now rents to the motorbike he proudly calls his own.

Petron ACE program provides free technical-vocational education in automotive servicing to deserving scholars at GCST. Once certified by the Technical and Educational Skills Development Authority (TESDA) as NC II mechanics, they are immediately hired at Petron Car Care Centers (CCC) or Petron service stations. Out of the 13 batch one graduates, 11 have been hired at Petron facilities.

By adding value to others, we are definitely adding more value to our own business.

Board of Directors

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") and Ginebra San Miguel, Inc. ("GSMI"); Chairman of San Miguel Pure Foods Company, Inc. ("SMPFC"), 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 also 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"), New Ventures Realty Corporation ("NVRC"), SEA Refinery Corporation ("SRC"), 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 Las Lucas Construction and Development Corporation ("LLCDC"), 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, 66 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.

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 21st 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.

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.

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.

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.

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, 31st 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.

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.

Mirzan Mahathir

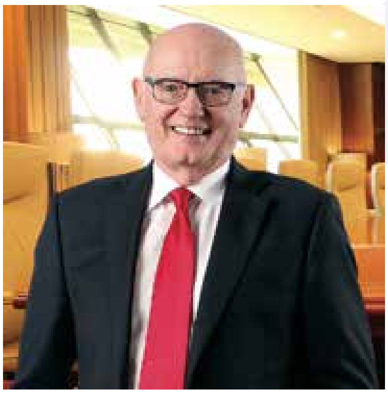
Malaysian, 58 years old, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn. Bhd., an investment holding and independent strategic and financial advisory firm based in Malaysia. He currently manages his investments in 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.

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.



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.

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; former professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program, and 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.

Nelly F. Villafuerte

Filipino, 81 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 and the Executive Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy; 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.

Corporate Governance

Petron Corporation ("Petron" or the "Company") is committed to pursuing good corporate governance and using good corporate governance principles and practices in the attainment of corporate goals. The Company keeps abreast of new developments in, and leading principles and practices on, good corporate governance. It 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.

Corporate Governance Manual

Petron adopted its Manual on Corporate Governance (the "CG Manual") on July 1, 2002. The latest revisions to the CG Manual were undertaken and approved by the Board of Directors on July 3, 2014.

Petron is in full compliance with the CG Manual.

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 CG Manual specifically provides that the Board of Directors and the Management of the Company exercise sound judgment in reviewing and directing how the Company implements the requirements of good corporate governance.

Pursuant to the CG Manual, the Board of Directors has appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary ("OGCCS"), as the Compliance Officer tasked to monitor compliance with the CG Manual and applicable laws, rules and regulations. The Compliance Officer directly reports to the Chairman of the Board of Directors and has direct access to the Board of Directors, through the Board Audit and Risk Management Committee, without interference from Management.

The Compliance Officer, through the OGCCS, periodically releases memoranda to employees, officers and directors on good governance policies being adopted by the Company and new corporate governance requirements set by applicable law, rules and regulations.

The Company will further revise the CG Manual in 2017pursuant to Memorandum Circular No. 19 (Series of 2016) issued by the Securities and Exchange Commission relating to the adoption of the new Code of Corporate Governance for Publicly-Listed Companies.

Shareholders' Rights

The Company is committed to respect the legal rights of its stockholders.

Voting Rights of Common and Preferred Shares

Common stockholders have the right to elect, remove and replace directors and vote on corporate acts and matters that require their consent or approval in accordance with the Corporation Code of the Philippines (the "Corporation Code").

At each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each share of the capital stock held by such stockholder, subject to the provisions of the Company's by-laws, including the provision which specifically provides for cumulative voting in the election of directors.

Preferred stockholders generally have no right to vote, except in respect of certain corporate acts as provided and specified in the Corporation Code, including, but not limited to, the following cases: (a) amendment of the Company's articles of incorporation or by-laws; (b) the extension or shortening of the Company's corporate term; (c) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets of the Company; (d) an increase or decrease in capital stock; or (e) a merger or consolidation involving the Company.

The Board of Directors is required by the CG Manual to be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and, if they cannot attend, they are apprised ahead of time of their right to appoint a proxy. The definitive information statement for stockholders' meeting provides a sample proxy for the convenience of the stockholders.

Right to Information of Shareholders (4.4; 4.16)

Accurate and timely information is made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

In 2016, the notice and agenda of the annual stockholders' meeting held on May 17, 2016, together with the definitive information statement, were first released on April 8, 2016, 39 days before the meeting. The notice and agenda were further published in The Manila Bulletin and The Philippine Star and on April 10, 2016 and April 11, 2016, respectively. The rationale for each agenda item was explained in the notice and agenda.

Through the definitive information statement distributed by the Company to its stockholders for each annual stockholders' meeting, the Company furnishes such stockholders its most recent audited financial statements showing in reasonable detail its assets and liabilities and the result of its operations.

At the annual meeting of the stockholders, the Board of Directors presents to the stockholders a financial report of the operations of the Company for the preceding year, which includes financial statements duly signed and certified by an independent public accountant, and allows the stockholders to ask and raise to Management questions or concerns. Duly authorized representatives of the Company's external auditor are also present at the meeting to respond to appropriate questions concerning the financial statements of the Company.

In addition to the foregoing, the Company maintains an investor relation unit and replies to requests for information and email and telephone queries from the stakeholders. The Company keeps stakeholders informed through its timely disclosures to the Securities and Exchange Commission ("SEC"), the Philippine Stock Exchange ("PSE"), and the Philippine Dealing & Exchange Corp. ("PDEx"), its regular quarterly briefings and investor briefings and conferences, and its website and social media accounts. The Company website makes available for viewing and downloading the Company's disclosures and filings with the SEC, PSE and PDEx, its media releases, and other salient information of the Company, including its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts.

Right to Dividends

Stockholders have the right to receive dividends, subject to the discretion of the Board of Directors.

It is the policy of the Company to 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 of Directors; (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.

Dividends of common shares are paid out within 30 days after the declaration by the Board of Directors, to the extent practicable. On March 15, 2016, a cash dividend of P0.10 per common share was declared and paid out on April 14, 2016.

The dividends for the Series 2A and Series 2B preferred shares issued by the Company in 2014 are fixed at the rate of 6.30% per annum and 6.8583% per annum, respectively, calculated in reference to the offer price of P1,000 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. Since the listing of the Series 2 preferred shares in November 2014, cash dividends were paid out in February, May, August and November in 2016.

On March 15, 2016, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on May 3, 2016 and August 3, 2016, respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on May 3, 2016 and August 3, 2016, respectively. Further, on August 8, 2016, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on November 3, 2016 and February 3, 2017, respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on November 3, 2016 and February 3, 2017, respectively.

Appraisal Right

The stockholders have the right to dissent and demand payment of the fair value of their shares in the manner provided for under the Corporation Code upon voting against a proposal for any of the following corporate acts: (a) a change or restriction in the rights of any stockholder or class of shares; (b) creation of preferences in any respect superior to those of outstanding shares of any class; (c) extension or shortening of the term of corporate existence; (d) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets; (e) merger or consolidation; and (f) an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation is organized.

Rights of Minority Shareholders

Minority stockholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the stockholders' meeting, provided the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice.

The Company's by-laws specifically provide that a special meeting of the stockholders may be called at the written request of one or more stockholders representing at least 20% of the total issued and outstanding capital stock of the Company entitled to vote, and which request states the purpose or purposes of the proposed meeting and delivered to and called by the Corporate Secretary at the Company's principal office.

The CG Manual expressly provides that the vote of at least 2/3 of the stockholders is necessary to remove a director.

Participation in Shareholders' Meetings:
Venue, Proxy, Voting Procedures and Open Forum

All the meetings of the stockholders are held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board of Directors. The annual stockholders' meeting of the Company is generally held at the Valle Verde Country Club in Pasig City, Metro Manila.

The Company encourages shareholders' voting rights and exerts efforts to remove excessive unnecessary costs and other administrative impediments to the meaningful participation in meetings and/or voting in person or by proxy by all its stockholders, whether individual or institutional investors.

The Company releases to the stockholders, together with the notice of the meeting and the definitive information statement for the annual stockholders' meeting, a sample proxy form for their convenience.

During the annual stockholders' meetings, the Company provides shuttle services in strategic points in the vicinity of the Valle Verde Country Club to provide free shuttle service to stockholders to and from the meeting venue.

Before the stockholders' meeting starts, the Corporate Secretary explains the voting and voting tabulation procedures.

As mentioned above, at each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each share of the common capital stock held by such stockholder, subject to the provisions of the Company's by-laws, including the provision on cumulative voting in the case of the election of directors.

Under the Company's by-laws, cumulative voting is allowed in the election of directors. A common stockholder may therefore distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares he/she has, or he/she may distribute them on the same principle among as many candidates as he/she shall see fit; provided, that the total number of votes cast by him/her shall not exceed the number of shares owned by him/her as shown in the books of the Company multiplied by the whole number of directors to be elected.

Preferred stockholders have no right to vote, except on certain corporate acts specified in the Corporation Code.

If at any stockholders' meeting a vote by ballot shall be taken, the Company's by-laws require the Chairman to appoint two Inspectors of Votes who will act as the Chairman and the Vice Chairman of the Voting Committee and, in turn, designate the other members of the Voting Committee. The Voting Committee to be created will adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the Voting Committee, who needs not be a stockholder, will subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability. In any event, the external auditor of the Company will be requested to supervise the voting proceedings.

The stockholders are allowed to ask and raise to Management questions or concerns at the open forum during each annual meeting of the stockholders.

Board of Directors

The compliance with the principles of good corporate governance starts with the Board of Directors.

Responsibility, Duties and Functions

The Board of Directors is responsible for overseeing management of the Company and fostering the long-term success of the Company and securing its sustained competitiveness and profitability in a manner consistent with the fiduciary responsibilities of the Board of Directors and the corporate objectives and best interests of the Company and its stakeholders.

The Board of Directors determines and formulates the Corporation's vision, mission, and strategic objectives and the means to attain them. The Board of Directors yearly reviews and approves the corporate strategies of the Company, together with company business plans and capital expenditure and operating budgets. It also periodically evaluates and monitors the overall performance of Management and the implementation of the strategies, plans and budgets for the year.

The specific functions of the Board of Directors include the appointment of competent, professional, honest and highly motivated management officers for an effective management succession planning program of the Company, and the encouragement of the use of alternative dispute resolutions for the settlement of issues between the Company and its stockholders or other third parties, including regulatory authorities.

Conflict of Interest and Abstention from Voting in Case of Conflict

A director's office is one of trust and confidence. A director should therefore act in the best interest of the Company and its stakeholders in a manner characterized by transparency, accountability and fairness.

The CG Manual requires a director to exercise leadership, prudence and integrity in directing the Company towards sustained progress.

The CG Manual further expressly requires a director to conduct fair business transactions with the Company by fully disclosing any interest in any matter or transaction to be acted upon by the Board of Directors and excuse himself/herself in the decision-making process of the Board of Directors with respect to it. In general, a director is required to ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or prejudice decisions of the Board of Directors.

Multiple Board Seats

The Company also has a multiple board seat policy enunciated in the CG Manual that requires a director to exercise due discretion in accepting and holding directorships other than in the Company, provided that, in holding such directorships, such director shall ensure that his/her capacity to diligently and efficiently perform his duties and responsibilities as a director of the Company is not compromised.

Composition and Diversity of Background and Skills

The Board of Directors is composed of 15 members (with three (3) independent directors) who are elected from the list of nominees short-listed by the Nomination Committee. The Nomination Committee determines whether the nominees have all the qualifications and none of the disqualifications, as well as the qualities that will enable the Board of Directors to fulfill its responsibilities and duties, including the pursuit of the Company's corporate strategies. The directors are elected annually at the stockholders' meeting and hold the position until their successors have been duly elected and qualified pursuant to the Company's by-laws.

Newly elected directors are given an orientation program by the OGCSS covering the profile and business of the Company and its corporate policies, including the CG Manual. The Company sponsors annual corporate governance seminars for the continuing education of the directors and the officers and their compliance with the corporate governance seminar requirements under Memorandum Circular No. 20 (Series of 2013) of the SEC.

The only executive directors of the Company are Messrs. Ramon S. Ang and Lubin B. Nepomuceno and neither of them serves as a director of more than two (2) listed companies outside the San Miguel Group to which the Company belongs.

The membership of the Board of Directors is a combination of executive and non-executive directors (who include the three (3) independent directors) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated.

The names, profiles, backgrounds and shareholdings of the directors, including the remuneration paid them, are disclosed in the definitive information statement of the Company distributed prior to annual stockholders' meetings as well as in the SEC Form 17-A and the Annual Corporate Governance Report of the Company.

The Company may use professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the Board of Directors, as may be necessary.

Meetings and Seminars Attended

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 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 2016 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar 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 Seminar 2016 (Yes/No)
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓	✓	Yes
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	Yes
Estelito 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

Independent Directors (4.3)

The Company has three (3) independent directors in its Board of Directors, namely, Mr. Reynaldo G. David, former Supreme Court Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves.

The CG Manual defines an independent director as "a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director."

An independent director is required by the CG Manual to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election as an independent director.

The Chairman; the President and Chief Executive Officer (4.2)

The positions of Chairman and Chief Executive Officer ("CEO") are held by two different individuals.

Mr. Eduardo M. Cojuangco, Jr. acts as the Chairman of the Company and is a non-executive director.

Mr. Ang is the President and CEO of the Company.

Under the Company's by-laws, the Chairman presides at all board and stockholders' meetings. Under the CG Manual, the Chairman is responsible for the following matters: (a) ensuring that the meetings of the Board of Directors are held in accordance with the Company's by-laws or as the Chairman may deem necessary; (b) supervising the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of Management and the directors; and (c) maintaining qualitative and timely lines of communication and information between the Board of Directors and Management.

Board Committees

The Board of Directors constituted the board committees described below in accordance with the principles of good corporate governance and pursuant to the Company's by-laws.

The CG Manual sets out the role, authority, duties and responsibilities, and the procedures of each committee and guides the conduct of its functions.

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. When the Board of Directors is not in session, the Executive Committee may exercise the powers of the former 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 or 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.

The CG Manual mandates the Executive Committee to exercise the authority granted to it with utmost judiciousness and report regularly to the Board of Directors at its subsequent meeting for information.

In 2016, the Executive Committee was chaired by Mr. Cojuangco, with Messrs. Ang and Nepomuceno as members. Ms. Aurora T. Calderon and Atty. Virgilio S. Jacinto acted as alternate members of the Executive Committee.

The Executive Committee held eight (8) meetings in 2016, 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

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 CG Manual and the Audit and Risk Management Committee Charter to be an independent director.

The Audit and Risk Management Committee is also governed by the Audit and Risk Management Committee Charter, which was last revised on May 11, 2015 to expressly provide for the risk management functions that the committee had already been discharging.

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 the appointment, re-appointment or removal of the external auditor and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other, free 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 headed by Mr. David, a certified public accountant and an independent director of the Company. 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. Calderon. Mr. Ferdinand K. Constantino acts as the advisor of the Audit and Risk Management Committee.

In 2016, the Audit Committee held four (4) meetings on March 15, May 5, August 8 and November 8. The attendance of the members is 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.

Nomination Committee

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

The Nomination Committee is also governed by the Nomination Committee Charter adopted by the Board of Directors on May 6, 2013.

The Nomination Committee is responsible for pre-screening and short-listing candidates nominated to become members of the Board of Directors and other appointments that require board approval to ensure that the candidates meet the criteria for election, i.e., they have all the qualifications and none of the disqualifications set out in the law and in the CG Manual. The Nomination Committee thus holds meetings before the election of any director or the appointment of any officer requiring board approval to screen the candidate.

During the director selection process, another quality of a nominee that is considered is his/her ability to help the Board of Directors fulfill its duty of providing and monitoring the implementation of sound corporate strategies, policies and guidelines that will sustain the long-term viability and strength of the Company.

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 considers, among others, the following guidelines in the determination of the number of directorships which a director may hold in accordance with the policy on holding multiple board seats: (a) the nature of the business of the corporations in which he/she is a director, (b) the age of the director, (c) the number of directorships/ active memberships and officerships in other corporations or organizations, and (d) possible conflict of interest. And in any case, the directors are required to ensure that their capacity to serve with diligence is not compromised.

The Nomination Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company, with Attys. Estelito P. Mendoza and 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 Company are included as members but without voting rights. The Chairman of the Board of Directors is the Chairman of the Compensation Committee.

The Compensation Committee is also governed by the Compensation Committee Charter adopted by the Board of Directors on May 6, 2013.

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.

Members of the Compensation Committee are prohibited by the CG Manual from participating in decisions with respect to his/her own remuneration, unless the same shall be applied to all the directors.

The Company has formal and transparent procedures for fixing the remuneration levels of individual directors and of officers. In setting salary structures and other remuneration for officers and directors, the Committee ensures that salaries and other remuneration are set at a level adequate to attract and retain directors and officers with the qualifications and experience needed to manage the Company successfully.

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.

The Compensation Committee has developed a form on full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others, compel all officers to declare under the penalty of perjury all their existing business interest or shareholdings that may directly or indirectly conflict in their performance of duties once hired.

In 2016, the Compensation Committee was chaired by Mr. Eduardo M. Cojuangco, Jr. (non-voting), 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.

Annual Assessment of Board, Committee and Individual Directors Performance

The Board of Directors adopted in August 2013 a new format for the annual self-assessment by each director that covers board, committee and individual performance. The assessment form is accomplished by the director each year-end.

The self-assessment forms cover the evaluation of the (a) 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; (b) 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 a better understanding of the businesses, and the consideration of the correlation between executive pay and Company performance; (c) effectiveness of board and committee processes 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 (d) 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 of incorporation, 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.

External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2016. KPMG was first appointed in 2010 and re-appointed yearly upon the review by the Audit and Risk Management Committee and recommendation by the Board of Directors.

The CG Manual requires the external auditor to observe and enable an environment of good corporate governance as reflected in the financial records and reports of the Company, undertake an independent audit, and provide objective assurance on the manner by which the financial statements are prepared and presented to the shareholders.

Duly authorized representatives of KPMG are expected to attend the Company's annual stockholders' meetings to respond to appropriate questions concerning the financial statements of the Company. KPMG auditors are also given the opportunity to make a representation or statement in case they decide to do so.

As in the previous years, representatives of KPMG attended the annual stockholders' meeting held on May 17, 2016.

Internal Audit

The Company has in place an independent internal audit function performed by the Internal Audit Department ("IAD") presently led by Mr. Ronaldo T. Ferrer, the IAD Head.

The Audit and Risk Management Committee considers the appointment of the internal auditor and the terms and conditions for his/her engagement and removal.

The IAD provides the senior management, the Audit Committee and the Board of Directors reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and being complied with.

The IAD is guided by the International Standards on Professional Practice of Internal Auditing. It reports functionally to the Audit Committee and administratively to the Chief Finance Officer. The CG Manual requires the head of the IAD to submit to the Audit Committee and the Management an annual report on the IAD's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee, include significant risk exposure, control issues and such other matters as may be needed or requested by the Board of Directors and Management.

Disclosure System

The CG Manual recognizes that the essence of corporate governance is transparency. It expressly states the commitment of the Company to fully and timely disclose material information concerning the Company's operations that can potentially affect share price, including earnings results, acquisition or disposal of major assets, changes in the Board of Directors, significant related party transactions (excluding the purchase of crude oil in the normal course of business), shareholdings of directors and changes in ownership exceeding 5% of the corporation's outstanding share capital. The CG Manual further requires the disclosure of other information such as remuneration of all directors and senior management, corporate strategy and any off balance sheet transactions pursuant to the requirements of the law.

The CG Manual further mandates the Company to adhere to transparent governance, commit at all times to fully disclose material information dealings, and cause the filing of all the required information for the interest of the stakeholders.

All information disclosed by the Company is released through the approved stock exchange procedure for Company announcements and the Company's annual report. The Company's website is also updated as soon as disclosures are approved by the PSE.

Stakeholder Relations (4.16)

The Company has an investor relations unit under the office of the Chief Finance Officer through which investor queries and concerns may be sent and a stock transfer agent that helps address stockholder concerns.

In addition, the Company keeps the public informed through the Company's timely PSE, PDEx, and SEC disclosures, its regular quarterly briefings and investor briefings and conferences and the Company's website and replies to information requests and email and telephone queries.

The Company's disclosures and filings with the SEC, PSE, and PDEx (including its annual reports, SEC form 17-A and Annual Corporate Governance Report), its media releases, and other salient information on the Company, including its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts are found in the Company website www.petron.com.

Code of Conduct and Ethical Business Policy; Whistle-blowing and Non-Retaliation Policy; Policy on Securities Dealing

Code of Conduct and Ethical Business Policy

The Company's Code of Conduct and Ethical Business Policy sets the standards for ethical and business conduct of the directors, officers and employees and expresses the commitment of the Company to conduct its business fairly, honestly, impartially and in good faith, and in an uncompromising ethical and proper manner.

All the directors, officers and employees of the Company are expressly required to comply with the Company's Code of Conduct and Ethical Business Policy and conduct themselves in a manner that avoids even the mere appearance of improper behavior.

Among the standards set by The Code of Conduct and Ethical Business Policy include (a) the open, honest and arms' length dealings with its dealers customers, suppliers, contractors, financial institutions and joint venture partners, (b) the supply of products and services of the highest quality backed by efficient after sales service, (c) the conduct of business in a manner that preserves the environment, protects the health and safety of its employees, customers, suppliers, contractors and the general public, (d) the observance of the vision and the mission of the Company and its core values of professionalism, integrity, fairness, commitment to excellence, and care of the environment, and includes the prohibitions against conflict of interest, bribery, gifts, disclosure of non-public information of the Company and misuse of company property, and (e) professional competence of the employees.

The procedure under the Code of Conduct and Ethical Business Policy requires anyone with any information or knowledge of any prohibited act or violation to promptly report the same to the Department Head, any Vice President, the Human Resources Management Department, the IAD or the General Counsel. Disciplinary measures may be imposed after an investigation.

All incoming employees are oriented with the policies of the Company, including the Code of Conduct and Ethical Business Policy. And as part of their pre-employment requirements, all such incoming employees are required to declare in writing (a) all their existing businesses that may directly or indirectly conflict their performance of their duties once hired and their undertaking to inform the Company of any conflict of interest situation that may later arise and (b) their acceptance of the company policies, rules and procedures, including those relating to conflict of interest, gifts, and insider trading.

Conflict of Interest

The Code of Conduct and Ethical Business Policy expressly provides a proscription against engaging in any activity in conflict with the interest of the Company and it requires a full disclosure of any interest which any employee or his/her immediate family and friends may have in the Company.

Employees are also generally restricted from accepting a position of responsibility (such as consultancy or directorship) with any other company or provide freelance services to anyone.

Anti-Corruption

The Code of Conduct and Ethical Business Policy specifically prohibits bribery and any solicitation, receipt, offer or making of any illegal payments, favors, donations or comparable gifts which are intended to obtain business or uncompetitive favors. The said acts are also punished under Company Rules and Regulations on Discipline with penalties ranging from light suspension to dismissal.

Whistle-blowing and Non-Retaliation Policy

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 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.

Policy on Securities Dealing

Under the Petron Corporation Policy on Dealings in Securities, the directors, officers and employees of the Company are required 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 officers, directors and employees of the Company who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information are prohibited from dealing in the securities of the Company during the blackout periods of (a) 10 business days before and five (5) business days after the deadline for the Company to make a structured disclosure or any disclosure of its financial results for any year, half-year, quarter or any other interim period and (b) five (5) business days before and five (5) business days after any non-structured disclosure of any material information other than financial results.

The directors and officers are obliged to report to the OGCCS any dealings in securities of the Company within two (2) business days after such dealings.

In addition, all incoming employees are required to submit a written confirmation of their acceptance of the company rules against insider trading as part of their pre-employment requirements.

The OGCCS, headed by Atty. Cruz, the Compliance Officer of the Company, periodically releases memoranda relating to the corporate governance policies of the Company, updates to corporate governance practices, filing obligations in respect of dealings in shares of the Company, and applicable blackout periods.

Financial Highlights

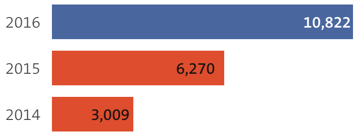
Amounts in Million Pesos, except per share and sales volume data

	2016	2015	2014
Net Sales	**343,840**	360,178	482,535
Gross Profit	**37,715**	31,444	19,131
Operating Income	**23,797**	18,134	7,605
Net Income	**10,822**	6,270	3,009
EBITDA	**32,189**	22,325	15,261
Property, Plant and Equipment	**176,604**	161,597	153,650
Total Assets	**318,893**	294,267	391,324
Total Equity	**88,820**	83,100	113,692
Net Debt	**152,886**	153,020	114,915
Earnings per share	**0.60**	0.15	(0.15)
Sales Volume (in thousands barrels)	**104,279**	98,006	86,454
Return on Sales	**3.1%**	1.7%	0.6%
Return on Assets	**3.5%**	1.8%	0.8%
Return on Equity	**12.6%**	6.4%	2.7%

Sustained profitability and record-high sales volumes

Petron Corporation's strong performance in 2016 resulted in a consolidated net income of P10.82 billion, 73% above previous year's earnings of P6.27 billion.

Net Income (in Millions)



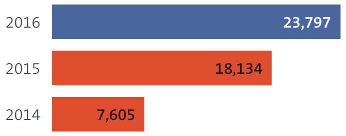
Consolidated sales volume reached all-time high of 104.3 million barrels with robust growth from both Philippine and Malaysian operations. Sales volume improvements were delivered by all major segments of Reseller, Industrial, LPG and Lubricants.

The Company's profitability improved as the Refinery Master Plan–2 (RMP-2) upgrade commenced commercial operations in January 2016, enabling the Company to produce more high-value products and petrochemicals while boosting our capability to process cheaper crude.

Sales Volume (in millions barrels)

Additional volumes from RMP-2 supported strong sales as we continued to pursue aggressive expansion of our service station network, offered customer-oriented marketing programs and focused our participation in key industries such as power generation and aviation.

Operating Income (in Millions)



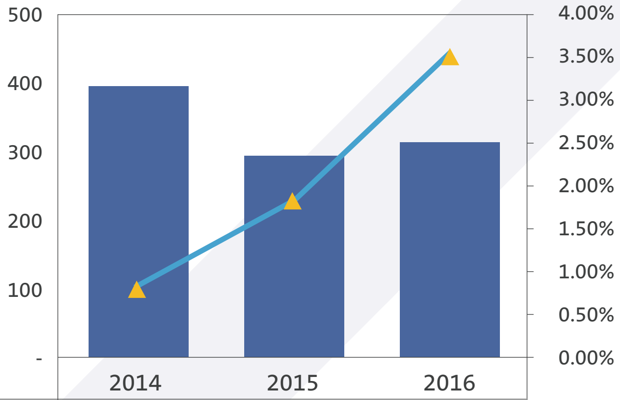
Amid higher sales volume, the global oil market remained challenging as the average price of benchmark crude Dubai stood lower by 19% against the previous year (US$50.91/barrel in 2015 vs. US$41.27/barrel in 2016) which contributed to the 5% (P16.34 billion) decline in revenues. However, effective risk management and operating efficiencies helped reduce cost of goods sold by 7% (P22.61 billion), resulting to higher gross profit and operating income compared to 2015 by 20% (P6.27 billion) and 31% (P5.66 billion), respectively.

Strong financial condition

Petron's consolidated assets remained strong at P318.89 billion as of December 31, 2016, 8% or P24.63 billion higher than the P294.27 billion as of December 31, 2015 due to:

Total Assets and ROA

in Billions



	2014	2015	2016
Total Assets	391	294	319
ROA	0.8%	1.8%	3.5%

- Inventories rose traced to higher volume and cost of crude oil and finished products at year-end. Consequently, liabilities for crude oil and petroleum products also moved up driving total liabilities to increase by 9% from P211.17 billion to P230.07 billion.
- Higher property, plant and equipment with the acquisition of a 140-megawatt solid fuel-fired power plant in December 2016.

Total equity increased by 7% (P5.72 billion) to P88.82 billion due to the significant increase in income. Overall, Petron's return on assets and equity reached 3.5% and 12.6%, respectively.

Healthy operating cash inflows

In Million Pesos	**2016**	2015	2014
Beginning Cash Balance	**18,881**	90,602	50,398
Operating Inflows (Outflows)	**29,269**	8,468	(737)
Investing Outflows	**(19,165)**	(14,592)	(4,336)
Financing Outflows	**(12,025)**	(66,343)	(45,165)
Effects of Exchange Rate Changes	**372**	746	112
Ending Cash Balance	**17,332**	18,881	90,602

The Company's internally generated cash from operations reached P37.06 billion during 2016 and this was partly used to pay interests and taxes, providing a net inflow of P29.27 billion. To optimally utilize the Company's excess funds, we acquired high value-yielding assets as well as settled both short-term and long-term obligations after returning dividends to our stakeholders.

The Company ended 2016 with a cash balance of P17.33 billion.

Audit 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:

- 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;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2014;
- 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;
- 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;
- 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;
- 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
- 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

Financial Statements

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

PETRON CORPORATION, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines, PO Box 014 MCPO 0708
Tel.: (632) 886-3888 • Pandacan Terminal, Jesus St., Pandacan, Manila Tel.: (632) 563-8521 • Mandaue Terminal, Looc, Mandaue City, Cebu Tel.: (032) 346-5135 / 344-7341 to 51 • Davao Depot, Km.9 Bo. Pampanga, Davao City Tel.: (082) 234-2185 / 233-0399 • Internet: http://www.petron.com

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 2 0 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 IBP No. 08324
MCLE Compliance No.V-0020700/4-20-2016

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
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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)

		December 31	
	Note	**2016**	2015
ASSETS			
Current Assets			
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
Total Current Assets		**125,818**	115,725
Noncurrent Assets			
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
Total Noncurrent Assets		**193,075**	178,542
		P318,893	P294,267

LIABILITIES AND EQUITY			
Current Liabilities			
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
Total Current Liabilities		**158,808**	126,579
Noncurrent Liabilities			
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
Total Noncurrent Liabilities		**71,265**	84,588
Total Liabilities		**230,073**	211,167

Forward

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

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

	Note	**2016**	2015	2014
NET INCOME		**P10,822**	P6,270	P3,009
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
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
		1,856	(2,183)	(3,260)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
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
		522	(3,749)	(1,498)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**2,378**	(5,932)	(4,758)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		**P13,200**	P338	(P1,749)
Attributable to:				
Equity holders of the Parent Company		**P12,742**	P390	(P1,368)
Non-controlling interests		**458**	(52)	(381)
		P13,200	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)

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2016		**P9,485**	**P19,653**	**P30,546**	**P25,082**	**P16,630**	**(P3,204)**	**(P5,563)**	**(P10,000)**	**P82,629**	**P471**	**P83,100**
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)
As of December 31, 2016		**P9,485**	**P19,653**	**P30,546**	**P15,160**	**P26,851**	**(P1,345)**	**(P5,859)**	**(P10,000)**	**P84,491**	**P4,329**	**P88,820**

Forward

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
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									
				Undated	Retained Earnings		Equity Reserves				
	Note	Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
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)

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

Forward

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

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:

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

[a] Ownership represents 100% of PGL's common shares.
[b] 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.

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.

<u>New or Revised Standards and Amendments to Standards Not Yet Adopted</u>
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.

<u>*Financial Assets*</u>
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.

<u>Classification of Financial Instruments between Liability and Equity</u>

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.

<u>Related Parties</u>
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.

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
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.

<u>Operating Segments</u>
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.

<u>Contingencies</u>
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.

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).

5. Cash and Cash Equivalents

This account consists of:

	Note	2016	2015
Cash on hand		**P1,794**	P2,029
Cash in banks		**5,423**	5,153
Short-term placements		**10,115**	11,699
	34, 35	**P17,332**	P18,881

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.

6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	Note	2016	2015
Proprietary membership shares	*34, 35*	**P157**	P147
Derivative assets	*34, 35*	**64**	362
		P221	P509

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).

7. Available-for-Sale Financial Assets

This account consists of:

	Note	2016	2015
Government securities		**P141**	P71
Other debt securities		**338**	550
	34, 35	**479**	621
Less current portion		**71**	233
		P408	P388

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:

	Note	**2016**	2015
Due in one year or less		**P71**	P233
Due after one year through six years		**408**	388
	34, 35	**P479**	P621

The reconciliation of the carrying amounts of AFS financial assets as of December 31 follows:

	2016	2015
Balance at beginning of year	**P621**	P881
Additions	**90**	163
Disposals	**(232)**	(428)
Amortization of premium	**(7)**	(15)
Fair value loss	**(2)**	(1)
Currency translation adjustment	**9**	21
Balance at end of year	**P479**	P621

8. Trade and Other Receivables

This account consists of:

	Note	**2016**	2015
Trade	*34*	**P18,338**	P17,424
Related parties - trade	*28, 34*	**1,001**	877
Allowance for impairment loss on trade receivables		**(807)**	(824)
		18,532	17,477
Government		**7,441**	7,062
Related parties - non-trade	*28*	**5,127**	4,913
Others		**787**	1,605
Allowance for impairment loss on non-trade receivables		**(339)**	(308)
		13,016	13,272
	34, 35	**P31,548**	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:

	Note	**2016**	2015
Balance at beginning of year		**P1,230**	P1,109
Additions	*23*	**68**	154
Write off	*4*	**(97)**	(22)
Currency translation adjustment		**26**	(4)
Reversal of impairment losses	*4*	**-**	(7)
Balance at end of year		**1,227**	1,230
Less noncurrent portion for long-term receivables	*14*	**81**	98
		P1,146	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):

	Past Due but not Impaired				
	Within 30 days	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Total**
December 31, 2016					
Reseller	**P107**	**P8**	**P2**	**P10**	**P127**
Lubes	**1**	**-**	**6**	**-**	**7**
Gasul	**57**	**2**	**2**	**-**	**61**
Industrial	**15**	**9**	**95**	**263**	**382**
Others	**88**	**35**	**23**	**131**	**277**
	P268	**P54**	**P128**	**P404**	**P854**
December 31, 2015					
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	**P24,474**	P13,383
Petroleum	**13,418**	11,661
Lubes, greases and aftermarket specialties	**2,754**	3,325
Materials and supplies	**3,501**	2,454
	P44,147	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		**P684**	P1,224
Provisions due to:			
Write-downs	*4*	**-**	225
Obsolescence	*4*	**327**	36
Reversals		**(223)**	(798)
Currency translation adjustment		**1**	(3)
Balance at end of year		**P789**	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.

10. Investment in Shares of Stock of an Associate

This account consists of:

	2016	2015
Acquisition Cost		
Balance at beginning of year	**P1,405**	P880
Additions	**-**	525
Balance at end of year	**1,405**	1,405
Share in Total Comprehensive Income		
Balance at beginning of year	**409**	282
Share in net income during the year	**66**	133
Share in other comprehensive income (loss)	**3**	(6)
Balance at end of year	**478**	409
	P1,883	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
Cost							
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
December 31, 2016	**28,903**	**162,263**	**16,172**	**4,652**	**14,004**	**25,319**	**251,313**
Accumulated Depreciation and Amortization							
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
December 31, 2016	**18,738**	**38,251**	**11,987**	**3,529**	**2,204**	**-**	**74,709**
Carrying Amount							
December 31, 2015	P10,823	P16,697	P5,090	P1,255	P11,147	P116,585	P161,597
December 31, 2016	**P10,165**	**P124,012**	**P4,185**	**P1,123**	**P11,800**	**P25,319**	**P176,604**

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:

	Land	Building	Total
Cost			
January 1 and December 31, 2015	P100	P25	P125
Disposal	(20)	-	(20)
December 31, 2016	**80**	**25**	**105**
Accumulated Depreciation			
January 1, 2015	-	12	12
Depreciation	-	1	1
December 31, 2015	-	13	13
Depreciation	-	1	1
December 31, 2016	**-**	**14**	**14**
Carrying Amount			
December 31, 2015	P100	P12	P112
December 31, 2016	**P80**	**P11**	**P91**

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.

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:

	Note	2016	2015
Cost			
Balance at beginning of year		**P7,694**	P8,921
Translation adjustments		**84**	(1,227)
Balance at end of year		**7,778**	7,694
Less impairment loss during the year	26	**298**	-
Carrying Amount		**P7,480**	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
Non-controlling Interests Percentage	**60.00%**	**26.60%**	**0.00%**	**0.00%**	60.00%	26.60%	52.75%	0.00%
Carrying amount of non-controlling interest	**P474**	**P3,855**	**P -**	**P -**	P417	P3,280	P898	(P4,030)
Current assets	**P308**	**P16,744**	**P94**	**P -**	P321	P11,836	P261	P -
Noncurrent assets	**5,296**	**12,601**	**2,753**	**-**	4,861	13,060	2,740	-
Current liabilities	**(205)**	**(13,946)**	**(9)**	**-**	(3,970)	(10,994)	(1,298)	-
Noncurrent liabilities	**(4,135)**	**(2,492)**	**-**	**-**	(43)	(3,141)	-	-
Net assets	**P1,264**	**P12,907**	**P2,838**	**P -**	P1,169	P10,761	P1,703	P -
Net income (loss) attributable to non-controlling interests	**P57**	**P725**	**(P60)**	**P -**	P58	P689	(P95)	P -
Other comprehensive income (loss) attributable to non-controlling interests	**P -**	**P28**	**P4**	**(P296)**	P -	(P488)	(P4)	(P212)
Sales	**P593**	**P87,124**	**P -**	**P -**	P542	P95,075	P -	P -
Net income (loss)	**P96**	**P2,727**	**(P314)**	**P -**	P97	P2,590	(P179)	(P1)
Other comprehensive income (loss)	**-**	**105**	**158**	**-**	-	(1,835)	73	(7)
Total comprehensive income (loss)	**P96**	**P2,832**	**(P156)**	**P -**	P97	P755	(P106)	(P8)
Cash flows provided by (used in) operating activities	**P222**	**P3,881**	**(P16)**	**P -**	P81	P3,956	(P558)	(P1)
Cash flows provided by (used in) investing activities	**(429)**	**(525)**	**-**	**-**	33	(1,218)	-	16,471
Cash flows provided by (used in) financing activities	**128**	**(3,221)**	**33**	**-**	-	(4,879)	507	(16,499)
Effects of exchange rate changes on cash and cash equivalents	**-**	**2**	**3**	**-**	-	(1)	-	-
Net increase (decrease) in cash and cash equivalents	**(P79)**	**P137**	**P20**	**P -**	P114	(P2,142)	(P51)	(P29)

14. Other Assets

This account consists of:

	Note	2016	2015
Current:			
Prepaid taxes		**P24,478**	P19,586
Input VAT		**6,097**	12,093
Prepaid expenses	*28*	**1,518**	2,282
Special-purpose fund		**140**	134
Tax recoverable		**-**	100
Others		**266**	335
		P32,499	P34,530
Noncurrent:			
Input VAT		**P2,229**	P79
Prepaid rent		**2,211**	2,228
Catalyst - net		**833**	947
Long-term receivables - net	*34, 35*	**205**	189
Noncurrent deposits	*34, 35*	**81**	82
Due from related parties	*28, 34, 35*	**-**	1,816
Others - net		**856**	1,385
		P6,415	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).

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).

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:

	Note	**2016**	2015
Third parties		**P29,563**	P16,271
Related parties	*28*	**403**	-
	34, 35	**P29,966**	P16,271

17. Trade and Other Payables

This account consists of:

	Note	**2016**	2015
Trade		**P4,545**	P2,883
Specific taxes and other taxes payable		**2,352**	1,859
Accrued payroll		**119**	115
Due to related parties	*28*	**5,474**	1,719
Accrued interest		**713**	629
Accrued rent		**892**	938
Dividends payable		**218**	195
Insurance liabilities		**66**	119
Retention payable		**336**	300
Deferred liability on customer loyalty programme		**750**	400
Retirement benefits liability	*30*	**77**	82
Others		**619**	108
	34, 35	**P16,161**	P9,347

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:

	Note	2016	2015
Unsecured Peso-Denominated (net of debt issue costs)			
Fixed rate corporate notes of 7% due in 2017	*(a)*	**P19,964**	P19,926
Fixed rate corporate notes of 6.3212% due in 2018 and 7.1827% due in 2021	*(b)*	**3,401**	3,433
Term loan of 5.4583% plus GRT due in 2022	*(f)*	**4,981**	4,976
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	*(g)*	**19,801**	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - MYR100 million	*(c)*	**832**	1,089
Floating rate dollar loan - MYR50 million	*(c)*	**-**	545
Floating rate dollar loan - MYR100 million	*(c)*	**920**	1,090
Floating rate dollar loan - MYR50 million	*(c)*	**506**	545
Floating rate dollar loan - US$475 million	*(d)*	**6,556**	15,639
Floating rate dollar loan - US$550 million	*(e)*	**22,891**	25,177
	34, 35	**79,852**	72,420
Less current portion		**20,911**	694
		P58,941	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:

	2016	2015
Balance at beginning of year	**P1,208**	P1,073
Additions	**205**	610
Amortization for the year	**(498)**	(475)
Balance at end of year	**P915**	P1,208

Repayment Schedule
As of December 31, 2016 and 2015, the annual maturities of long-term debt are as follows:

2016

	Gross Amount	**Debt Issue Costs**	**Net**
2016	**P20,956**	**P45**	**P20,911**
2017	**13,679**	**519**	**13,160**
2018	**12,642**	**116**	**12,526**
2019	**8,842**	**30**	**8,812**
2020	**16,648**	**134**	**16,514**
2021 and beyond	**8,000**	**71**	**7,929**
	P80,767	**P915**	**P79,852**

2015

	Gross Amount	Debt Issue Costs	Net
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:

	Note	**2016**	2015
Balance at beginning of year		**P1,809**	P1,659
Additions		**129**	310
Effect of change in discount rate		**278**	(262)
Accretion for the year	*22, 26*	**141**	156
Settlement		**(33)**	(36)
Effect of change in lease term		**-**	(18)
Balance at end of year		**P2,324**	P1,809

20. Other Noncurrent Liabilities

	Note	2016	2015
Cash bonds		**P387**	P382
Cylinder deposits		**499**	454
Others		**73**	70
	34, 35	**P959**	P906

"Others" account includes liability to a contractor and supplier.

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:

	2016	2015
Series 2A Preferred Shares	**49**	41
Series 2B Preferred Shares	**31**	31
	80	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).

22. Cost of Goods Sold

This account consists of:

	Note	**2016**	2015	2014
Inventories	*9*	**P283,169**	P311,526	P451,318
Purchased services and utilities		**10,486**	8,156	4,464
Depreciation and amortization	*25*	**6,153**	2,724	2,654
Personnel expenses	*24*	**1,647**	1,565	1,529
Others	*19, 31*	**4,670**	4,763	3,439
		P306,125	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.

23. Selling and Administrative Expenses

This account consists of:

	Note	**2016**	2015	2014
Depreciation and amortization	*14, 25*	**P3,352**	P3,548	P3,379
Personnel expenses	*24*	**3,373**	3,150	2,731
Purchased services and utilities		**3,004**	2,597	2,333
Advertising		**1,460**	1,482	985
Maintenance and repairs		**1,108**	985	1,160
Materials and office supplies		**754**	603	342
Taxes and licenses		**415**	314	301
Rent - net	*29, 31*	**154**	164	103
Impairment losses on trade and other receivables	*4, 8*	**68**	154	2
Others	*9*	**230**	313	190
		P13,918	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.

24. Personnel Expenses

This account consists of:

	Note	**2016**	2015	2014
Salaries, wages and other employee costs	*28*	**P4,348**	P4,210	P4,089
Retirement benefits costs - defined benefit plan	*28, 30*	**579**	419	91
Retirement benefits costs - defined contribution plan	*28*	**93**	86	80
		P5,020	P4,715	P4,260

The above amounts are distributed as follows:

	Note	**2016**	2015	2014
Costs of goods sold	*22*	**P1,647**	P1,565	P1,529
Selling and administrative expenses	*23*	**3,373**	3,150	2,731
		P5,020	P4,715	P4,260

25. Depreciation and Amortization

This account consists of:

	Note	2016	2015	2014
Cost of goods sold:				
Property, plant and equipment	*11*	**P5,316**	P2,291	P2,654
Other assets	*14*	**837**	433	-
	22	**6,153**	2,724	2,654
Selling and administrative expenses:				
Property, plant and equipment	*11*	**2,930**	3,073	2,840
Investment property	*12*	**1**	1	1
Intangible assets and others	*14*	**421**	474	538
	23	**3,352**	3,548	3,379
		P9,505	P6,272	P6,033

26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Expenses)

This account consists of:

	Note	2016	2015	2014
Interest expense and other financing charges:				
Long-term debt	*18*	**P3,657**	P869	P858
Short-term loans	*15*	**2,323**	3,284	3,302
Bank charges		**999**	1,157	1,182
Amortization of debt issue costs	*18*	**498**	144	115
Accretion on ARO	*19*	**76**	66	65
Others		**4**	13	6
		P7,557	P5,533	P5,528
Interest income:				
Advances to related parties	*14, 28*	**P261**	P297	P428
Short-term placements	*5*	**163**	313	331
AFS financial assets	*7*	**18**	11	10
Trade receivables		**50**	45	55
Cash in banks	*5*	**14**	20	20
Others		**1**	-	-
		P507	P686	P844

Forward

	Note	2016	2015	2014
Other income (expenses):				
Foreign currency losses - net	*34*	**(P2,236)**	(P4,305)	(P1,617)
Marked-to-market gains - net	*35*	**824**	936	2,153
Insurance claims		**16**	61	33
Changes in fair value of financial assets at FVPL	*6*	**10**	11	19
Hedging gains (losses) - net		**(152)**	637	140
Others - net	*13*	**(897)**	(835)	62
		(P2,435)	(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:

	2016	2015
Various allowances, accruals and others	**P894**	P414
Net retirement benefits liability	**878**	1,578
Unrealized foreign exchange losses - net	**791**	673
Inventory differential	**616**	874
ARO	**373**	295
Rental	**217**	255
Unutilized tax losses	**197**	184
MCIT	**6**	474
Fair market value adjustments on business combination	**(31)**	(32)
Capitalized taxes and duties on inventories deducted in advance	**(211)**	(245)
Excess of double-declining over straight-line method of depreciation and amortization	**(3,587)**	(2,782)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(5,675)**	(6,116)
NOLCO	**-**	2
Unrealized fair value gains on AFS financial assets	**-**	(1)
	(P5,532)	(P4,427)

The above amounts are reported in the consolidated statements of financial position as follows:

	2016	2015
Deferred tax assets	**P194**	P211
Deferred tax liabilities	**(5,726)**	(4,638)
	(P5,532)	(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:

	2016	2015	2014
Current	**P3,289**	P1,448	P569
Deferred	**267**	2,207	235
	P3,556	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:

	2016	2015	2014
Excess of double-declining over straight-line method of depreciation and amortization	**P805**	(P156)	(P163)
MCIT	**468**	(232)	(232)
Inventory differential	**258**	(569)	(743)
Rental	**38**	(9)	(28)
NOLCO	**2**	405	(388)
Unutilized tax gains (losses)	**(13)**	91	(151)
Capitalized taxes and duties on inventories deducted in advance	**(34)**	34	7
ARO	**(78)**	(75)	22
Unrealized foreign exchange losses (gains) - net	**(118)**	(67)	210
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(441)**	2,818	1,261
Various allowances, accruals and others	**(480)**	(14)	395
Others	**(140)**	(19)	45
	P267	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:

	Note	**2016**	2015	2014
Statutory income tax rate		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	*36*	**(9.63%)**	-	(4.14%)
Interest income subjected to lower final tax		**(0.13%)**	(0.74%)	(2.20%)
Nontaxable income		**(2.36%)**	(0.89%)	(1.36%)
Nondeductible expense		**1.85%**	2.40%	5.53%
Nondeductible interest expense		**0.06%**	0.26%	0.71%
Changes in fair value of financial assets at FVPL	*26*	**(0.02%)**	(0.03%)	(0.16%)
Excess of optional standard deduction over deductible expenses		**(0.05%)**	(0.07%)	(0.13%)
Others, mainly income subject to different tax rates		**5.01%**	5.90%	(7.16%)
Effective income tax rate		**24.73%**	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:

	Note	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		

a. 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).

b. 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.

c. Purchases relate to purchase of goods and services such as power, construction, information technology and shipping from a joint venture and various SMC subsidiaries.

d. 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.

e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

f. TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.

g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

h. Amounts owed to related parties consist of trade and non-trade payables.

i. In 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):

	2016	2015	2014
Salaries and other short-term employee benefits	**P754**	P659	P690
Retirement benefits costs (income) - defined benefit plan	**133**	86	(3)
Retirement benefits costs - defined contribution plan	**31**	27	25
	P918	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:

	2016	2015	2014
Within one year	**P1,322**	P1,269	P1,181
After one year but not more than five years	**3,497**	2,982	2,814
After five years	**10,763**	9,821	9,296
	P15,582	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:

	2016	2015	2014
Within one year	**P187**	P272	P279
After one year but not more than five years	**158**	259	322
After five years	**17**	14	25
	P362	P545	P626

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
Balance at beginning of year	**(P5,603)**	(P5,947)	(P5,867)	**P12**	P3,603	P9,598	**P -**	P -	(P1,448)	**(P5,591)**	(P2,344)	P2,283
Recognized in Profit or Loss												
Current service cost	**(285)**	(302)	(302)	**-**	-	-	**-**	-	-	**(285)**	(302)	(302)
Past service cost - plan amendment	**(2)**	-	-	**-**	-	-	**-**	-	-	**(2)**	-	-
Interest expense	**(278)**	(269)	(311)	**-**	-	-	**-**	-	-	**(278)**	(269)	(311)
Interest income	**-**	-	-	**(14)**	152	500	**-**	-	-	**(14)**	152	500
Interest on the effect of asset ceiling	**-**	-	-	**-**	-	-	**-**	-	(77)	**-**	-	(77)
Settlement gain	**-**	-	99	**-**	-	-	**-**	-	-	**-**	-	99
	(565)	(571)	(514)	**(14)**	152	500	**-**	-	(77)	**(579)**	(419)	(91)
Recognized in Other Comprehensive Income												
Remeasurements:												
Actuarial losses (gains) arising from:												
Experience adjustments	**(398)**	(163)	(235)	**-**	-	-	**-**	-	-	**(398)**	(163)	(235)
Changes in financial assumptions	**173**	151	(331)	**-**	-	-	**-**	-	-	**173**	151	(331)
Changes in demographic assumptions	**302**	197	466	**-**	-	-	**-**	-	-	**302**	197	466
Return on plan asset excluding interest	**-**	-	-	**2,570**	(3,297)	(6,081)	**-**	-	-	**2,570**	(3,297)	(6,081)
Changes in the effect of asset ceiling	**-**	-	-	**-**	-	-	**-**	-	1,525	**-**	-	1,525
	77	185	(100)	**2,570**	(3,297)	(6,081)	**-**	-	1,525	**2,647**	(3,112)	(4,656)
Others												
Benefits paid	**753**	600	485	**(651)**	(546)	(414)	**-**	-	-	**102**	54	71
Contributions	**-**	-	-	**35**	100	-	**-**	-	-	**35**	100	-
Transfer to other accounts payable	**-**	6	-	**-**	-	-	**-**	-	-	**-**	6	-
Transfers from other plans/affiliate	**(16)**	-	-	**-**	-	-	**-**	-	-	**(16)**	-	-
Transfers to other plans/affiliate	**16**	-	-	**-**	-	-	**-**	-	-	**16**	-	-
Translation adjustment	**(6)**	124	49	**-**	-	-	**-**	-	-	**(6)**	124	49
	747	730	534	**(616)**	(446)	(414)	**-**	-	-	**131**	284	120
Balance at end of year	**(P5,344)**	(P5,603)	(P5,947)	**P1,952**	P12	P3,603	**P -**	P -	P -	**(P3,392)**	(P5,591)	(P2,344)

The above net defined benefit retirement liability was recognized in the consolidated statements of financial position as follows:

	Note	2016	2015
Trade and other payables	*17*	**P77**	P82
Retirement benefits liability (noncurrent portion)		**3,315**	5,509
		P3,392	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:

	2016	2015
Shares of stock:		
Quoted	**82%**	74%
Unquoted	**4%**	4%
Government securities	**9%**	9%
Cash and cash equivalents	**2%**	3%
Others	**3%**	10%
	100%	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	**5.38% to 5.53%**	4.60% to 5.50%	4.49% to 5.50%
Future salary increases	**5.00% to 8.00%**	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:

	Defined Benefit Liabilities	
2016	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P375)**	**P435**
Salary increase rate	**392**	**(345)**

	Defined Benefit Liabilities	
2015	1 Percent Increase	1 Percent Decrease
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, filing 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.

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	**P10,100**	P5,618	P3,320
Dividends on preferred shares for the year	**(646)**	(646)	(1,114)
Distributions to the holders of USCS	**(3,807)**	(3,607)	(3,580)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P5,647**	P1,365	(P1,374)
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**P0.60**	P0.15	(P0.15)

As of December 31, 2016, 2015 and 2014, the Parent Company has no potential dilutive debt or equity instruments.

33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

	2016	2015	2014
Decrease (increase) in assets:			
Trade receivables	**(P230)**	P18,138	P12,704
Inventories	**(13,029)**	22,875	(1,547)
Other current assets	**954**	(8,136)	(6,392)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	**11,842**	(10,030)	(16,122)
Trade and other payables and others	**4,922**	(27,934)	5,083
	4,459	(5,087)	(6,274)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	**91**	(397)	(286)
	P4,550	(P5,484)	(P6,560)

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
Assets				
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
	484	**24,041**	498	23,455
Liabilities				
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
	1,312	**65,197**	1,647	77,542
Net foreign currency-denominated monetary liabilities	**(828)**	**(41,156)**	(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$
December 31, 2016	**49.720**
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**
Fixed Rate							
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%**	
Floating Rate							
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
Fixed Rate							
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%	
Floating Rate							
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:

	Note	**2016**	2015
Cash in bank and cash equivalents (net of cash on hand)	*5*	**P15,538**	P16,852
Derivative assets	*6*	**64**	362
Available-for-sale financial assets	*7*	**479**	621
Trade and other receivables - net	*8*	**31,548**	30,749
Due from related parties	*14*	**-**	1,816
Long-term receivables - net	*14*	**205**	189
Noncurrent deposits	*14*	**81**	82
		P47,915	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
December 31, 2016				
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**
	P17,678	**P854**	**P807**	**P19,339**

	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
	P16,631	P846	P824	P18,301

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			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2016				
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**
	P6,843	**P10,450**	**P2,046**	**P19,339**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
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**
Financial Assets						
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**	**-**
Financial Liabilities						
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
Financial Assets						
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
Financial Liabilities						
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:

	2016	2015
Total assets	**P318,893**	P294,267
Total liabilities	**230,073**	211,167
Total equity	**88,820**	83,100
Debt to equity ratio	**2.6:1**	2.5:1
Assets to equity ratio	**3.6:1**	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:

		2016		2015	
	Note	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*5*	**P17,332**	**P17,332**	P18,881	P18,881
Trade and other receivables	*8*	**31,548**	**31,548**	30,749	30,749
Due from related parties	*14*	**-**	**-**	1,816	1,816
Long-term receivables - net	*14*	**205**	**205**	189	189
Noncurrent deposits	*14*	**81**	**81**	82	82
Loans and receivables		**49,166**	**49,166**	51,717	51,717
AFS financial assets	*7*	**479**	**479**	621	621
Financial assets at FVPL	*6*	**157**	**157**	147	147
Derivative assets	*6*	**64**	**64**	362	362
FA at FVPL		**221**	**221**	509	509
Total financial assets		**P49,866**	**P49,866**	P52,847	P52,847

	Note	2016 Carrying Amount	2016 Fair Value	2015 Carrying Amount	2015 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
Total financial liabilities		**P214,630**	**P214,630**	P196,448	P196,448

**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:

	Note	**2016**	2015
Fair value at beginning of year		**(P241)**	P1,398
Net changes in fair value during the year	*26*	**824**	936
Fair value of settled instruments		**(1,297)**	(2,575)
Fair value at end of year		**(P714)**	(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.

2016	**Level 1**	**Level 2**	**Total**
Financial Assets:			
FVPL	**P -**	**P157**	**P157**
Derivative assets	**-**	**64**	**64**
AFS financial assets	**141**	**338**	**479**
Financial Liabilities:			
Derivative liabilities	**-**	**(778)**	**(778)**

2015	Level 1	Level 2	Total
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.

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.

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.

<u>Segment Assets and Liabilities</u>
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.

<u>Inter-segment Transactions</u>
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.

<u>Major Customer</u>
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
2016						
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
2015						
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
2014						
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:

	Reseller	Lube	Gasul	Industrial	Others	Total
2016						
Revenue	**P161,415**	**P4,445**	**P17,922**	**P83,650**	**P74,547**	**P341,979**
Property, plant and equipment	**18,557**	**110**	**384**	**210**	**152,069**	**171,330**
Capital expenditures	**3,214**	**1**	**89**	**110**	**21,920**	**25,334**
2015						
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
2014						
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.

	2016	2015
Local	**P261,761**	P242,529
International	**56,938**	51,527
	P318,699	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.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2016						
Local	**P204,585**	**P64**	**P593**	**P1,855**	**(P1,686)**	**P205,411**
Export/international	**299,375**	**68**	**-**	**-**	**(161,014)**	**138,429**
2015						
Local	212,724	57	542	2,325	(2,014)	213,634
Export/international	303,355	50	-	-	(156,861)	146,544
2014						
Local	276,885	52	550	2,782	(3,538)	276,731
Export/international	452,296	30	-	-	(246,522)	205,804

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

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 enjoinment 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.

Terminals and Airport Installations

LUZON

APARRI
J.P. de Carreon St., Punta, Aparri, Cagayan

BATANGAS
Bo. Mainaga, Mabini, Batangas

LIMAY
Limay, Bataan

NAVOTAS
PFDA CMPD., Navotas, Metro Manila

PASACAO
Brgy. Camangi, Pasacao, Camarines Sur

PALAWAN
Parola, Brgy. Maunlad, Puerto Princesa City

PORO
Poro Pt., San Fernando, La Union

ROSARIO
General Trias, Rosario, Cavite

VISAYAS

AMLAN
Tandayag, Amlan, Negros Oriental

BACOLOD
Bo. San Patricio, Bacolod City

ILOILO
Lapuz, Iloilo City

ISABEL
LIDE, Isabel, Leyte

MACTAN
MEPZ, Lapu-Lapu City

MANDAUE
Looc, Mandaue City

ORMOC
Bo. Linao, Ormoc City

ROXAS
Arnaldo Blvd., Culasi

TACLOBAN
Anibong, Tacloban City

TAGBILARAN
Graham Ave., Tagbilaran City

MINDANAO

DAVAO
Km. 9, Bo. Pampanga, Davao City

BAWING
Purok Cabu, Bawing, General Santos City

ILIGAN
Bo. Tuminobo, Iligan City

JIMENEZ
Jimenez, Misamis Occidental

NASIPIT
Talisay, Nasipit, Agusan del Norte

TAGOLOAN
Tagoloan, Misamis Oriental

ZAMBOANGA
Brgy. Campo Islam, Lower Calarian, Zamboanga City

AIRPORT INSTALLATIONS

DAVAO
Davao Airport

ILOILO
Brgy. Airport, Mandurriao, Iloilo City

LAOAG
Laoag Airport

NAIA JOCASP
Compound, NAIA, Pasay City

LPG OPERATIONS

PASIG
Bo. Ugong, Pasig, Metro Manila

LEGASPI
Lakandula Drive, Brgy. Bonot, Legaspi City

SAN FERNANDO
San Fernando, Pampanga

CALAMBA WAREHOUSE

CALAMBA
Calamba, Laguna

Products List

FUELS

Automotive Fuels
Petron Blaze 100 Euro 4
Petron XCS
Petron Xtra Advance
Petron Super Xtra
Petron Turbo Diesel
Petron Diesel Max
Petron Xtend Autogas

Industrial Fuels
Petron Fuel Oil

Aviation Fuels
Aviation Gasoline
Jet A- 1

Household Fuels
Gasul
Gaas

AUTOMOTIVE LUBRICATING OILS

Diesel Engine Oils
Rev-X Fully Synthetic
Rev-X Premium Multi-grade
Rev-X Multi-grade
Rev-X Pantra
Rev-X HD
Petron XD3
Petron Railroad Extra

Gasoline Engine Oils
Ultron Fully Synthetic
Ultron Synthetic Blend
Ultron Premium Multi-grade
Ultron Mutli-grade
Petron MO

Motorcycle Oils
Petron Sprint 4T Fully Synthetic
Petron Sprint 4T Premium Multi-grade
Petron Sprint 4T Multi-grade
2T Powerburn

Automotive Gear Oils
Petron GX
Petron GEP
Perton GST

Automotive Transmission Fluids
Petron ATF Premium
Petron TF 38
Petron TDH 50

Other Automotive Oils
STM

INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils
Hydrotur AWX
Hydrotur AW
Hydrotur AW GT
Hydrotur EP 46
Hydrotur N 100
Hydrotur R
Hydrotur SX 32
Hydrotur SX 68
Hydrotur T
Hydrotur TEP

Industrial Gear Oils
Hydrotur SX 220
Hypex EP (Oil-Based)
Hypex EP (Asphalt-Based)
Milrol 5K
Gearfluid
Gearkote
Petrocyl S
Petrocyl 680

Cutting Oils
Turnol 40
Petrokut 10
Petrokut 27

Refrigeration Oils
Zerflo 68
Zerflo P68
Suniso 4GS

Transformer Oil
Voltran 60

Slideway Oil
Hydrotur SW 68
Hydrotur SW 220

Other Industrial Lubricating Oils
Petron Airlube
Petrosine

MARINE LUBRICATING OILS

Crosshead Engine Cylinder Oils
Petromar DCL 7050
Petromar DCL 4000 Series

Trunk Piston Engine Oils
Petromar HF 3000 series
Petromar HF 4000 series
Petromar HF 5540
Petromar HF 5040
Petromar XC 5540
Petromar XC 5040
Petromar XC 4040
Petromar XC 3000 Series
Petromar XC 2000 Series
Petromar XC 1500 Series
Petromar XC 1000 Series
Petron MS 9250
Petron MS 9370

Crosshead Engine System Oil
Petromar 65

Marine Outboard 2-stroke oil
Petron Regatta

GREASES

Multi-purpose Greases
Petrogrease MP
Molygrease Premium
Petrogrease Premium

Water Resistant Grease
Petrogrease XX

Extreme Pressure Greases
Petrogrease EP
Molygrease EP2
Molygrease EP 1P
Molygrease EP 2P
Petrogrese EP 375

High Temperature Greases
Petrogrease HT

Complex Greases
Petron Premium Lithium Complex

ASPHALTS

Penetration Asphalt
Petropen

Cutback Asphalt
Petropen CB

Emulsified Asphalt
Petromul SS-1
Petromul CSS -1

Blown Asphalts
Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen
Petron Polymer Modified Bitumen

SPECIAL PRODUCTS

Process Oils
Stemol
Petrosine 68

Heat Transfer Oil
Petrotherm 32

Cleaning Agent
Greasaway

Protective Coatings
Petrokote 392
Marinekote
Autokote
Cablelube
Cablekote

AFTERMARKET SPECIALTIES

PetroMate Specialties
PetroMate Oil Saver
PetroMate Oil Improver
PetroMate Gas Saver
PetroMate Diesel Power Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Clean N' Shine
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Brake and Clutch Fluid
PetroMate Carbon Buster

AVIATION LUBRICANTS

Nyco Grease GN 22
Hydraunycoil FH 51
Aviation Oil Elite 20W-50
Turbo Oil 2380
Turbo Oil 274

PERFROMANCE ADDITIVES

pChem 3500
pChem 3500F
pChem 140M
pChem 3500MF
pChem 500FS
pChem 1000
pChem 100X
pChem 3500M
pChem 3000DP
pChem 6000DP

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www.twitter.com/Petron_Corp

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40 San Miguel Avenue 1550 Mandaluyong City
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