CR03045-2018

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended

   Mar 31, 2018

2. SEC Identification Number

   31171

3. BIR Tax Identification No.

   000-168-801

4. Exact name of issuer as specified in its charter

   PETRON CORPORATION

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
   Postal Code
   1550

8. Issuer's telephone number, including area code

   (63 2) 886-3888, 884-9200

9. Former name or former address, and former fiscal year, if changed since last report

   N/A

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 2A (PRF2A)	7,122,320
PREFERRED SERIES 2B (PRF2B)	2,877,680
PCOR SERIES A BONDS DUE 2021 (IN MIL PESO)	13,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO)	7,000
TOTAL DEBT AS OF MAR 31, 2018 (IN MIL PESO)	246,856

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

☑ Yes ☐ No

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

Philippine Stock Exchange - Common and Preferred Shares; Philippine Dealing & Exchange Corp. - Series A and B Bonds

12. Indicate by check mark whether the registrant:

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

☑ Yes ☐ No

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

☑ Yes ☐ No

PETRON

Petron Corporation
PCOR

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

For the period ended	Mar 31, 2018
Currency (indicate units, if applicable)	Peso (In Millions)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Mar 31, 2018	Dec 31, 2017
Current Assets	161,541	145,490
Total Assets	356,044	338,030
Current Liabilities	131,319	124,495
Total Liabilities	246,856	238,411
Retained Earnings/(Deficit)	51,006	49,142
Stockholders' Equity	109,188	99,619
Stockholders' Equity - Parent	102,420	93,655
Book Value per Share	9.85	8.88

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	129,112	106,412	129,112	106,412
Gross Expense	120,316	97,554	120,316	97,554
Non-Operating Income	454	267	454	267
Non-Operating Expense	1,906	2,011	1,906	2,011
Income/(Loss) Before Tax	7,344	7,114	7,344	7,114
Income Tax Expense	1,558	1,559	1,558	1,559
Net Income/(Loss) After Tax	5,786	5,555	5,786	5,555
Net Income Attributable to Parent Equity Holder	5,523	5,215	5,523	5,215
Earnings/(Loss) Per Share (Basic)	0.47	0.43	0.47	0.43
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	0.84	0.84
Earnings/(Loss) Per Share (Diluted)	-	-

Other Relevant Information
Please see attached Quarterly Report (SEC Form 17-Q) for the 1st Quarter 2018 of the Company filed with the Securities and Exchange Commission today, May 10, 2018.

Filed on behalf by:

Name	Jhoanna Jasmine Javier-Elacio
Designation	Legal Manager and Assistant Corporate Secretary

COVERSHEET

						3	1	1	7	1

S. E. C. Registration Number

P E T R O N C O R P O R A T I O N

(Company's Full Name)

S M C H E A D O F F I C E 4 0 S A N M I G U E L

A V E. M A N D A L U Y O N G C I T Y

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

ATTY. JOEL ANGELO C. CRUZ

Contact Person

884-9200

Company Telephone Number

1	2	-	3	1

Month Day

Fiscal Year

SEC Form 17-Q 1st Quarter 2018)

FORM TYPE

0	5		1	5

Month Day

Annual Meeting

(For 2018)

Permit to offer securities

Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

146,686 (as of March 31, 2018)

Total No. of Stockholders

Total Amount of Borrowings

Domestic Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2018.

2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801

4. Exact name of registrant as specified in its charter PETRON CORPORATION

5. Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. Mandaluyong City, 40 San Miguel Avenue, 1550
Address of principal office — Postal Code

8. (0632) 884-9200
Registrant's telephone number, including area code

9. N/A
(Former name, former address, and former fiscal year, if changed since last report.)

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (As of March 31, 2018)
Common Stock	9,375,104,497 Shares
Preferred Stock Series 2A	7,122,320 Shares
Preferred Stock Series 2B	2,877,680 Shares
Total Liabilities	P246,856 Million (as of March 31, 2018)

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

Yes [X]   No [ ]

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

<u>Philippine Stock Exchange</u>	<u>Common and Preferred Shares</u>
Philippine Dealing & Exchange Corp.	Series A and Series B Bonds

12. Indicate by check mark whether the Registrant:

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

Yes [X]   No [ ]

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

Yes [X]   No [ ]

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

	Note	**Unaudited March 31 2018**	Audited December 31 2017
ASSETS			
Current Assets			
Cash and cash equivalents	*9, 10*	**P20,792**	P17,014
Financial assets at fair value through profit or loss	*9, 10*	**289**	336
Financial assets at fair value through other comprehensive income	*9, 10*	**205**	199
Trade and other receivables - net	*7, 9, 10*	**42,831**	38,159
Inventories		**63,197**	56,604
Other current assets	*7*	**34,227**	33,178
Total Current Assets		**161,541**	145,490
Noncurrent Assets			
Financial assets at fair value through other comprehensive income	*9, 10*	**330**	332
Property, plant and equipment - net	*6*	**178,730**	177,690
Investment property - net		**75**	75
Deferred tax assets - net		**226**	207
Goodwill - net		**9,093**	8,277
Other noncurrent assets - net	*9, 10*	**6,049**	5,959
Total Noncurrent Assets		**194,503**	192,540
		P356,044	P338,030

LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*8, 9, 10*	**P71,224**	P69,583
Liabilities for crude oil and petroleum products	*9, 10*	**40,399**	36,920
Trade and other payables	*7, 9, 10*	**13,538**	11,604
Derivative liabilities	*9, 10*	**835**	1,791
Income tax payable		**923**	808
Current portion of long-term debt - net	*9, 10*	**4,400**	3,789
Total Current Liabilities		**131,319**	124,495

Forward

	Note	**Unaudited March 31 2018**	Audited December 31 2017
Noncurrent Liabilities			
Long-term debt - net of current portion	*9, 10*	**P98,830**	P97,916
Retirement benefits liability		**4,898**	4,885
Deferred tax liabilities - net		**7,926**	7,397
Asset retirement obligation		**2,709**	2,681
Other noncurrent liabilities	*9, 10*	**1,174**	1,037
Total Noncurrent Liabilities		**115,537**	113,916
Total Liabilities		**246,856**	238,411
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,485**	9,485
Additional paid-in capital		**19,653**	19,653
Capital securities	*11*	**39,053**	30,546
Retained earnings		**51,006**	49,142
Equity reserves		**(6,777)**	(5,171)
Treasury stock		**(10,000)**	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		**102,420**	93,655
Non-controlling Interests		**6,768**	5,964
Total Equity		**109,188**	99,619
		P356,044	P338,030

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED INTERIM STATEMENTS OF INCOME (UNAUDITED)
(Amounts in Million Pesos, Except Per Share Amounts)

		For the Three Months Ended March 31	
	Note	**2018**	2017
SALES	*5*	**P129,112**	P106,412
COST OF GOODS SOLD		**116,938**	94,485
GROSS PROFIT		**12,174**	11,927
SELLING AND ADMINISTRATIVE EXPENSES		**(3,378)**	(3,069)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(1,906)**	(2,011)
INTEREST INCOME		**128**	104
SHARE IN NET INCOME OF AN ASSOCIATE		**-**	14
OTHER INCOME - Net		**326**	149
		(4,830)	(4,813)
INCOME BEFORE INCOME TAX		**7,344**	7,114
INCOME TAX EXPENSE		**1,558**	1,559
NET INCOME		**P5,786**	P5,555
Attributable to:			
Equity holders of the Parent Company		**P5,523**	P5,215
Non-controlling interests		**263**	340
		P5,786	P5,555
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*12*	**P0.47**	P0. 43

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Million Pesos)

	For the Three Months Ended March 31	
	2018	2017
NET INCOME	**P5,786**	P5,555
OTHER COMPREHENSIVE INCOME		
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Exchange differences on translation of foreign operations	**3,878**	709
Unrealized fair value gain (loss) on financial assets at fair value through other comprehensive income	**(3)**	1
Share in other comprehensive loss of a joint venture	**(1)**	-
Income tax benefit	**1**	-
OTHER COMPREHENSIVE INCOME - Net of tax	**3,875**	710
TOTAL COMPREHENSIVE INCOME - Net of tax	**P9,661**	P6,265
Attributable to:		
Equity holders of the Parent Company	**P8,855**	P5,832
Non-controlling interests	**806**	433
	P9,661	P6,265

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

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

		Equity Attributable to Equity Holders of the Parent Company											
				Capital Securities		Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Senior Perpetual	Undated Subordinated	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2018 (Audited)		**P9,485**	**P19,653**	**-**	**P30,546**	**P15,160**	**P33,982**	**(P2,146)**	**(P3,025)**	**(P10,000)**	**P93,655**	**P5,964**	**P99,619**
Adjustment due to PFRS 9		-	-	-	-	-	42	-	-	-	42	(2)	40
As of January 1, 2018 (Adjusted)		9,485	19,653	-	30,546	15,160	34,024	(2,146)	(3,025)	(10,000)	93,697	5,962	99,659
Unrealized fair value loss on financial assets at fair value through other comprehensive income – net of tax		-	-	-	-	-	-	-	(2)	-	(2)	-	(2)
Share in other comprehensive loss of a joint venture		-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	3,335	-	3,335	543	3,878
Other comprehensive income for the period		-	-	-	-	-	-	-	3,332	-	3,332	543	3,875
Net income for the period		-	-	-	-	-	5,523	-	-	-	5,523	263	5,786
Total comprehensive income for the period		-	-	-	-	-	5,523	-	3,332	-	8,855	806	9,661
Cash dividends	11	-	-	-	-	-	(1,729)	-	-	-	(1,729)	-	(1,729)
Distributions paid	11	-	-	-	-	-	(1,972)	-	-	-	(1,972)	-	(1,972)
Redemption of undated subordinated capital securities	11	-	-	-	(16,371)	-	-	-	(4,938)	-	(21,309)	-	(21,309)
Issuance of senior perpetual capital securities	11	-	-	24,878	-	-	-	-	-	-	24,878	-	24,878
Transactions with owners		-	-	-	14,175	-	(3,701)	-	(4,938)	-	(132)	-	(132)
As of March 31, 2018 (Unaudited)		**P9,485**	**P19,653**	**P24,878**	**P14,175**	**P15,160**	**P35,846**	**(P2,146)**	**(P4,631)**	**(P10,000)**	**P102,420**	**P6,768**	**P109,188**

Forward

		Equity Attributable to Equity Holders of the Parent Company											
				Capital Securities		Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Senior Perpetual	Undated Subordinated	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2017 (Audited)		P9,485	P19,653	P -	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820
Unrealized fair value gain on financial assets at fair value through other comprehensive income – net of tax		-	-	-	-	-	-	-	1	-	1	-	1
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	616	-	616	93	709
Other comprehensive income for the period		-	-	-	-	-	-	-	617	-	617	93	710
Net income for the period		-	-	-	-	-	5,215	-	-	-	5,215	340	5,555
Total comprehensive income for the period		-	-	-	-	-	5,215	-	617	-	5,832	433	6,265
Cash dividends		-	-	-	-	-	(1,261)	-	-	-	(1,261)	-	(1,261)
Distributions paid		-	-	-	-	-	(2,000)	-	-	-	(2,000)	-	(2,000)
Transactions with owners		-	-	-	-	-	(3,261)	-	-	-	(3,261)	-	(3,261)
As of March 31, 2017 (Unaudited)		P9,485	P19,653	P -	P30,546	P15,160	P28,805	(P1,345)	(P5,242)	(P10,000)	P87,062	P4,762	P91,824

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

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

	Note	For the Three Months Ended March 31 **2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P7,344**	P7,114
Adjustments for:			
Depreciation and amortization		**2,857**	2,670
Interest expense and other financing charges		**1,906**	2,011
Retirement benefits costs		**151**	118
Unrealized foreign exchange losses - net		**2,118**	99
Share in net income of an associate		**-**	(14)
Interest income		**(128)**	(104)
Other losses		**1,717**	115
Operating income before working capital changes		**15,965**	12,009
Changes in noncash assets, certain current liabilities and others		**(10,881)**	(4,347)
Cash generated from operations		**5,084**	7,662
Contributions to retirement fund		**(200)**	(100)
Interest paid		**(1,766)**	(1,875)
Income taxes paid		**(446)**	(345)
Interest received		**153**	49
Net cash flows provided by operating activities		**2,825**	5,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	*6*	**(1,615)**	(1,528)
Proceeds from sale of property and equipment		**37**	5
Decrease in other noncurrent assets		**-**	(68)
Net cash flows used in investing activities		**(1,578)**	(1,591)

Forward

	For the Three Months Ended March 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	**P77,077**	P47,712
Payments of:		
Loans	**(76,212)**	(49,433)
Cash dividends and distributions	**(2,088)**	(2,185)
Issuance of senior perpetual capital securities	**24,878**	-
Redemption of undated subordinated capital securities	**(21,309)**	-
Increase in other noncurrent liabilities	**-**	111
Net cash flows provided by (used in) financing activities	**2,346**	(3,795)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**185**	74
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,778**	79
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**17,014**	17,332
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**P20,792**	P17,411

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

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

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

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

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

The intermediate parent company of Petron is San Miguel Corporation (SMC) while its ultimate parent company is Top Frontier Investment 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. Statement of Compliance

The consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2017. The consolidated interim financial statements do not include all the information required for a complete set of financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of the Group as of and for the year ended December 31, 2017. The audited consolidated financial statements are available upon request from the Group's registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

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

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2017. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2018.

Adoption of Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2018 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 interim financial statements.

- PFRS 9 (2014), *Financial Instruments*, 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. 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 Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables amounting to P60.

- *Applying* PFRS 9, *Financial Instruments* with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit to defer application of PFRS 9 in 2018 and continue to apply PAS 39, *Financial Instruments: Recognition and Measurement* if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is not held for an activity that is unconnected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

- 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 Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group'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 PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

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

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)* 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.

- 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.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates* on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

<u>New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted</u>
A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Group has not applied the following new or revised standards, amended standards and interpretations in preparing these consolidated interim financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group’s consolidated financial statements.

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 management of the Group is currently assessing the potential impact of PFRS 16 on their current lease arrangements and plans to adopt this new standard on leases on the required effective date.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- Long-term Interests in Associates and Joint Ventures *(Amendments to* PAS 28, *Investments in Associates).* The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests (LTIs) that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PFRS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any prior years' PAS 28 loss absorption. If necessary, prior years' PAS 28 loss allocation is trued-up in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

  The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- 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.

- Prepayment Features with Negative Compensation *(Amendments to PFRS 9)*. The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

  The amendments were approved by the FRSC on November 8, 2017 but is still subject to the approval by the BOA.

- Plan Amendment, Curtailment or Settlement *(Amendments to* PAS 19, *Employee Benefits*). The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:

  - PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements* clarify how the Group accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

    The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

  - PAS 12, *Income Taxes*, clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, OCI or equity.

    The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- PAS 23, *Borrowing Costs*, clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale - or any non-qualifying assets - are included in that general pool.

  The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

To be Adopted 2020

- *Amendments to References to Conceptual Framework in IFRS Standards* introduces the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in other comprehensive income; (c) guidance on the recognition and derecognition of assets and liabilities in the financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  The revised framework is effective for annual periods beginning on or after January 1, 2020.

To be Adopted 2021

- PFRS 17, *Insurance Contracts*. PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

  The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply PFRS 9 and PFRS 15.

4. Use of Judgments and Estimates

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2017.

5. Segment Information

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

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

a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, 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, Vietnam, Taiwan, Cambodia, Malaysia, Thailand, Indonesia, South Korea and Singapore.

f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended March 31, 2018, December 31, 2017 and March 31, 2017:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
March 31, 2018						
Sales:						
External sales	**P128,904**	**P -**	**P7**	**P208**	**(P7)**	**P129,112**
Inter-segment sales	**66,116**	**19**	**133**	**-**	**(66,268)**	**-**
Operating income	**8,646**	**17**	**64**	**15**	**54**	**8,796**
Net income	**5,739**	**32**	**18**	**24**	**(27)**	**5,786**
Assets and liabilities:						
Segment assets	**407,812**	**2,721**	**6,085**	**656**	**(61,456)**	**355,818**
Segment liabilities	**263,597**	**1,646**	**4,634**	**104**	**(31,051)**	**238,930**
Other segment information:						
Property, plant and equipment	**173,200**	**-**	**-**	**129**	**5,401**	**178,730**
Depreciation and amortization	**2,850**	**-**	**2**	**5**	**-**	**2,857**
Interest expense and other financing charges	**1,906**	**-**	**39**	**-**	**(39)**	**1,906**
Interest income	**156**	**8**	**1**	**2**	**(39)**	**128**
Income tax expense	**1,543**	**7**	**6**	**3**	**(1)**	**1,558**

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
December 31, 2017						
Sales:						
External sales	P433,879	P -	P -	P745	P -	P434,624
Inter-segment sales	199,117	83	584	-	(199,784)	-
Operating income	26,895	59	295	16	373	27,638
Net income						
Assets and liabilities:						
Segment assets	382,313	1,319	5,871	636	(52,316)	337,823
Segment liabilities	248,118	291	4,439	108	(21,942)	231,014
Other segment information:						
Property, plant and equipment	172,212	-	-	134	5,344	177,690
Depreciation and amortization	10,952	-	9	18	-	10,979
Interest expense and other financing charges	8,487	-	164	-	(164)	8,487
Interest income	666	26	2	5	(164)	535
Income tax expense	4,648	16	27	3	61	4,755

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
March 31, 2017						
Sales:						
External sales	P106,237	P -	P16	P175	(P16)	P106,412
Inter-segment sales	50,387	95	130	-	(50,612)	-
Operating income	8,690	80	74	8	6	8,858
Net income	5,486	45	27	(6)	3	5,555
Assets and liabilities:						
Segment assets	361,837	2,115	5,799	686	(50,638)	319,799
Segment liabilities	236,659	1,152	4,478	109	(20,553)	221,845
Other segment information:						
Property, plant and equipment	170,814	-	-	145	5,184	176,143
Depreciation and amortization	2,662	-	-	8	-	2,670
Interest expense and other financing charges	2,011	-	41	-	(41)	2,011
Interest income	138	6	-	1	(41)	104
Income tax expense	1,556	6	3	(6)	-	1,559

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended March 31, 2018, December 31, 2017 and March 31, 2017:

	Reseller	Lube	Gasul	Industrial	Others	Total
March 31, 2018						
Revenue	**P62,715**	**P1,557**	**P6,425**	**P32,255**	**P25,952**	**P128,904**
Property, plant and equipment	**22,440**	**83**	**444**	**156**	**150,077**	**173,200**
Capital expenditures	**3,046**	**2**	**15**	**37**	**5,236**	**8,336**
December 31, 2017						
Revenue	P212,840	P5,307	P22,850	P101,333	P91,549	P433,879
Property, plant and equipment	20,648	86	435	153	150,890	172,212
Capital expenditures	2,473	1	100	49	4,821	7,444
March 31, 2017						
Revenue	P49,843	P1,420	P6,178	P25,606	P23,190	P106,237
Property, plant and equipment	19,053	100	383	235	151,043	170,814
Capital expenditures	3,763	1	96	93	4,708	8,661

<u>Geographical Segments</u>

The following table presents segment assets of the Group as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Local	**P284,716**	P271,883
International	**71,102**	65,940
	P355,818	P337,823

The following table presents revenue information regarding the geographical segments of the Group for the periods ended March 31, 2018, December 31, 2017 and March 31, 2017:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
March 31, 2018						
Local	**P82,146**	**P13**	**P140**	**P208**	**(P304)**	**P82,203**
Export/international	**112,874**	**6**	**-**	**-**	**(65,971)**	**46,909**
December 31, 2017						
Local	P271,117	P29	P584	P745	(P1,156)	P271,319
Export/international	361,879	54	-	-	(198,628)	163,305
March 31, 2017						
Local	P67,296	P55	P146	P175	(P364)	P67,308
Export/international	89,328	40	-	-	(50,264)	39,104

6. Property, Plant and Equipment

This account consists of:

	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, 2017 (Audited)	P28,903	P162,263	P16,172	P4,652	P14,004	P25,319	P251,313
Additions	563	1,307	405	232	237	6,954	9,698
Disposals/reclassifications	2,162	20,628	159	(68)	(315)	(24,983)	(2,417)
Currency translation adjustments	876	1,106	700	135	705	139	3,661
December 31, 2017 (Audited)	32,504	185,304	17,436	4,951	14,631	7,429	262,255
Additions	26	110	43	32	59	1,345	1,615
Disposals/reclassifications	423	100	(344)	(39)	63	(573)	(370)
Currency translation adjustments	1,094	1,188	789	151	694	135	4,051
March 31, 2018 (Unaudited)	**34,047**	**186,702**	**17,924**	**5,095**	**15,447**	**8,336**	**267,551**
Accumulated depreciation and amortization:							
January 1, 2017 (Audited)	18,738	38,251	11,987	3,529	2,204	-	74,709
Additions	1,315	7,200	868	416	162	-	9,961
Disposals/reclassifications	(380)	25	(1,064)	(241)	(342)	-	(2,002)
Currency translation adjustment	532	820	416	93	36	-	1,897
December 31, 2017 (Audited)	20,205	46,296	12,207	3,797	2,060	-	84,565
Additions	317	1,858	246	108	39	-	2,568
Disposals/reclassifications	97	(3)	(495)	(18)	20	-	(399)
Currency translation adjustment	641	855	437	107	47	-	2,087
March 31, 2018 (Unaudited)	**21,260**	**49,006**	**12,395**	**3,994**	**2,166**	**-**	**88,821**
Carrying Amount:							
December 31, 2017 (Audited)	P12,299	P139,008	P5,229	P1,154	P12,571	P7,429	P177,690
March 31, 2018 (Unaudited)	**P12,787**	**P137,696**	**P5,529**	**P1,101**	**P13,281**	**P8,336**	**P178,730**

<u>Capital Commitments</u>

As of March 31, 2018 and December 31, 2017, the Group has outstanding commitments to acquire property, plant and equipment amounting to P8,348 and P10,615, respectively.

7. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended March 31, 2018 and December 31, 2017 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	*a*	**2018**	**P16**	**P -**	**P5,203**	**P109**	On demand;	Unsecured;
		2017	211	-	5,188	-	interest bearing	no impairment
Intermediate Parent	*b,e*	**2018**	**-**	**50**	**4**	**285**	On demand;	Unsecured;
		2017	10	650	4	27	non-interest bearing	no impairment
Under Common Control	*b,c,d,i*	**2018**	**34**	**1,011**	**920**	**1,438**	On demand;	Unsecured;
		2017	3,233	10,670	870	768	non-interest bearing	no impairment
Associate	*b*	**2018**	**-**	**-**	**-**	**-**	On demand;	Unsecured;
		2017	153	-	-	-	non-interest bearing	no impairment
Joint Ventures	*c, f*	**2018**	**-**	**-**	**-**	**-**	On demand;	Unsecured
		2017	1	43	-	4	non-interest bearing	no impairment
		2018	**P50**	**P1,061**	**P6,127**	**P1,832**		
		2017	**P3,608**	**P11,363**	**P6,062**	**P799**		

a. The Parent Company has interest bearing advances to Petron Corporation Employee Retirement Plan (PCERP), included as part of “Trade and other receivables” account in the consolidated interim statements of financial position, for some investment opportunities.

b. Sales relate to the Parent Company’s supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rental of P6. The lease, which commenced on June 1, 2017, 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. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services for Petron Fuel International Sdn Bhd (PFISB) and another venture.

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.

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for nine months ended March 31, 2018 follow:

Balance as of January 1, 2018	**P69,583**
Loan availments	**77,078**
Loan repayments	**(75,427)**
Translation adjustment	**(10)**
Balance as of March 31, 2018	**P71,224**

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 7 to 90 days and 4 to 120 days with annual interest ranging from 2.50% to 4.42% and 2.35% to 6.02% as of and for the periods ended March 31, 2018 and December 31, 2017, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

9. Financial Risk Management Objectives and Policies

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

It is the Group's policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into 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 Board of Directors (BOD) regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

Risk Management Structure

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

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

Oversight and technical assistance is likewise provided by corporate units 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. Petron Singapore Trading Pte. Ltd. (PSTPL) executes the hedging transactions involving crude and product imports on behalf of the Group.

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

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

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

b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.

c. The Compliance Officer, who is a senior officer of the Parent Company, reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

Foreign Currency Risk

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

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

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

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

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

	March 31, 2018		December 31, 2017	
	US dollar (in millions)	**Philippine peso Equivalent**	US dollar (in millions)	Philippine peso Equivalent
Assets				
Cash and cash equivalents	**228**	**11,907**	19	952
Trade and other receivables	**204**	**10,620**	118	5,891
Other assets	**12**	**624**	3	126
	444	**23,151**	140	6,969
Liabilities				
Short-term loans	**133**	**6,921**	1	30
Liabilities for crude oil and petroleum products	**776**	**40,492**	515	25,747
Long-term debt (including current maturities)	**1,000**	**52,160**	1,000	49,930
Other liabilities	**7**	**343**	35	1,733
	1,916	**99,916**	1,551	77,440
Net foreign currency - denominated monetary liabilities	**(1,472)**	**(76,765)**	(1,411)	(70,471)

The Group incurred net foreign currency losses amounting to P2,210 and P119 for the periods ended March 31, 2018 and 2017, respectively, which were mainly countered by marked-to-market and hedging gains (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US$) as of reporting dates are shown in the following table:

	PhP to US$
March 31, 2018	**52.160**
December 31, 2017	49.930
March 31, 2017	50.160

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

The following table demonstrates the sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, to profit before tax and equity as of March 31, 2018 and December 31, 2017:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
March 31, 2018	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P63)**	**(P213)**	**P63**	**P213**
Trade and other receivables	**(108)**	**(195)**	**108**	**195**
Other assets	**(2)**	**(12)**	**2**	**12**
	(173)	**(420)**	**173**	**420**
Short-term loans	**133**	**93**	**(133)**	**(93)**
Liabilities for crude oil and petroleum products	**629**	**776**	**(606)**	**(776)**
Long-term debts (including current maturities)	**1,000**	**700**	**(1,000)**	**(700)**
Other liabilities	**-**	**7**	**-**	**(7)**
	1,762	**1,575**	**(1,762)**	**(1,575)**
	P1,589	**P1,155**	**(P1,589)**	**(P1,155)**

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
December 31, 2017	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P10)	(P144)	P10	P144
Trade and other receivables	(81)	(263)	81	263
Other assets	(3)	(12)	3	12
	(94)	(419)	94	419
Short-term loans	1	-	(1)	-
Liabilities for crude oil and petroleum products	326	789	(326)	(789)
Long-term debts (including current maturities)	1,000	700	(1,000)	(700)
Other liabilities	33	193	(33)	(193)
	1,360	1,682	(1,360)	(1,682)
	P1,266	P1,263	(P1,266)	(P1,263)

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 foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's 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 the 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) by P522 and P499 for the period ended March 31, 2018 and for the year ended December 31, 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table
As of March 31, 2018 and December 31, 2017, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2018	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P4,445**	**P5,672**	**P5,672**	**P21,291**	**P4,768**	**P10,214**	**P52,062**
Interest rate	**5.5% - 7.2%**	**5.5% - 7.2%**	**5.5% - 7.2%**	**4.0% - 7.2%**	**5.5% - 5.6%**	**4.5% - 5.5%**	
Floating Rate							
US$ denominated (expressed in PhP)	-	**14,903**	**14,903**	**14,903**	**7,451**	-	**52,160**
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**		
	P4,445	**P20,575**	**P20,575**	**P36,194**	**P12,219**	**P10,214**	**P104,222**

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

December 31, 2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P3,820	P5,672	P5,672	P21,291	P5,643	P10,750	P52,848
Interest rate	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	5.5% - 5.8%	4.5% - 5.5%	
Floating Rate							
US$ denominated (expressed in PhP)	-	14,266	14,266	14,266	7,132	-	49,930
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		
	P3,820	P19,938	P19,938	P35,557	P12,775	P10,750	P102,778

**The Parent Company reprices every month but has the 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 interim statements of financial position or in the notes to the consolidated interim financial statements, as summarized below:

	March 31, 2018	December 31, 2017
Cash in bank and cash equivalents (net of cash on hand)	**P18,848**	P14,313
Derivative assets	**105**	165
Financial assets at FVOCI	**535**	531
Trade and other receivables - net	**42,831**	38,159
Long-term receivables - net	**269**	228
Noncurrent deposits	**84**	90
	P62,672	P53,486

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. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P5,334 and P4,927 as of March 31, 2018 and December 31, 2017, 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 guarantee in favor of any counterparty.

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 including but not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

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

Class C “Low Grade” are accounts with high probability of delinquency and default.

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

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

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

The table below summarizes the maturity profile of the Group’s financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2018 and December 31, 2017:

March 31, 2018	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	**P20,792**	**P20,792**	**P20,792**	**P -**	**P -**	**P -**
Trade and other receivables	**42,831**	**42,831**	**42,831**	**-**	**-**	**-**
Derivative assets	**105**	**105**	**105**	**-**	**-**	**-**
Financial assets at FVPL	**184**	**184**	**184**	**-**	**-**	**-**
Financial assets at FVOCI	**535**	**583**	**212**	**64**	**307**	**-**
Long-term receivables – net	**269**	**269**	**-**	**-**	**269**	**-**
Noncurrent deposits	**84**	**84**	**-**	**-**	**8**	**76**
Financial Liabilities						
Short-term loans	**71,224**	**71,467**	**71,467**	**-**	**-**	**-**
Liabilities for crude oil and petroleum products	**40,399**	**40,399**	**40,399**	**-**	**-**	**-**
Trade and other payables*	**7,509**	**7,509**	**7,509**	**-**	**-**	**-**
Derivative liabilities	**835**	**835**	**835**	**-**	**-**	**-**
Long-term debt (including current maturities)	**103,230**	**117,895**	**8,391**	**24,666**	**74,223**	**10,615**
Cash bonds	**409**	**413**	**-**	**394**	**2**	**17**
Cylinder deposits	**714**	**714**	**-**	**-**	**-**	**714**
Other noncurrent liabilities	**48**	**48**	**-**	**9**	**18**	**21**

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

December 31, 2017	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	P17,014	P17,014	P17,014	P -	P -	P -
Trade and other receivables	38,159	38,159	38,159	-	-	-
Derivative assets	165	165	165	-	-	-
Financial assets at FVPL	171	171	171	-	-	-
Financial assets at FVOCI	531	577	204	64	309	-
Long-term receivables - net	228	228	-	-	-	228
Noncurrent deposits	90	90	-	-	9	81

December 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Short-term loans	69,583	69,879	69,879	-	-	-
Liabilities for crude oil and petroleum products	36,920	36,920	36,920	-	-	-
Trade and other payables*	7,917	7,917	7,917	-	-	-
Derivative liabilities	1,791	1,791	1,791	-	-	-
Long-term debt (including current maturities)	101,705	117,024	7,812	23,619	74,308	11,285
Cash bonds	400	404	-	385	2	17
Cylinder deposits	577	577	-	-	-	577
Other noncurrent liabilities**	57	57	-	14	20	23

**Excluding specific taxes and other taxes payable, retirement benefits liability, deferred income and others*
***excluding cash bonds and cylinder deposits*

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 (financial assets at FVPL and financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

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

	March 31, 2018	December 31, 2017
Total assets	**P356,044**	P338,030
Total liabilities	**246,856**	238,411
Total equity	**109,188**	99,619
Debt to equity ratio	**2.3:1**	2.4:1
Assets to equity ratio	**3.3:1**	3.4:1

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

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

10. 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 FVPL, includes transaction costs.

Classification of Financial Instruments. The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, financial assets at FVOCI, 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 the 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 fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets

Financial Assets at FVOCI and 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 as 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 as 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 "Other income - Net" in the consolidated interim statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized as part of "Cost of goods sold" in the consolidated interim 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 financial assets at FVOCI 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 interim 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 interim 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.

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 interim statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated interim 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 financial assets at FVOCI 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 as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The 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 as part of "Interest expense and other financing charges account" in the consolidated interim statements of income.

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.

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 right to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of 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.

<u>Impairment of Financial Assets</u>
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 evidence of 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 is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses at each reporting date whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.
If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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

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

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

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	**P20,792**	**P20,792**	P17,014	P17,014
Trade and other receivables - net	**42,831**	**42,831**	38,159	38,159
Long-term receivables - net	**269**	**269**	228	228
Noncurrent deposits	**84**	**84**	90	90
Loans and receivables	**63,976**	**63,976**	55,491	55,491
Financial assets at FVOCI	**535**	**535**	531	531
Financial assets at FVPL	**184**	**184**	171	171
Derivative assets	**105**	**105**	165	165
Total financial assets at FVPL	**289**	**289**	336	336
Total financial assets	**P64,800**	**P64,800**	P56,358	P56,358

	March 31, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities:				
Short-term loans	**P71,224**	**P71,224**	P69,583	P69,583
Liabilities for crude oil and petroleum products	**40,399**	**40,399**	36,920	36,920
Trade and other payables*	**7,509**	**7,509**	7,917	7,917
Long-term debt including current portion	**103,230**	**103,230**	101,705	101,705
Cash bonds	**409**	**409**	400	400
Cylinder deposits	**714**	**714**	577	577
Other noncurrent liabilities	**48**	**48**	57	57
Financial liabilities at amortized cost	**223,533**	**223,533**	217,159	217,159
Derivative liabilities	**835**	**835**	1,791	1,791
Total financial liabilities	**P224,368**	**P224,368**	P218,950	P218,950

**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 Financial Assets at FVOCI. 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.

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.

<u>Derivative Financial Instruments</u>
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.

<u>Freestanding Derivatives</u>
Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

Currency Forwards. As of March 31, 2018 and December 31, 2017, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,179 million and US$1,283 million, respectively, and with various maturities in 2018. As of March 31, 2018 and December 31, 2017, the net fair value of these currency forwards amounted to P6 and (P445), respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements with various maturities in 2018. 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 12.1 million barrels and 42.6 million barrels as of March 31, 2018 and December 31, 2017, respectively. The estimated net payout for these transactions amounted to P735 and P1,181 as of March 31,2018 and December 31, 2017, respectively.

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

As of March 31, 2018 and December 31, 2017, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2018 and December 31, 2017, the net fair value of these embedded currency forwards is minimal.

For the periods ended March 31, 2018 and December 31, 2017, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P2,279 and (P1,692), respectively.

Fair Value Measurements

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

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

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming the 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 nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method, as of March 31, 2018 and December 31, 2017. The different levels have been defined as follows:

March 31, 2018	**Level 1**	**Level 2**	**Total**
Financial Assets:			
Financial assets at FVPL	**P -**	**P184**	**P184**
Derivative assets	**-**	**105**	**105**
Financial assets at FVOCI	**200**	**335**	**535**
Financial Liabilities:			
Derivative liabilities	**-**	**(835)**	**(835)**

December 31, 2017	Level 1	Level 2	Total
Financial Assets:			
Financial assets at FVPL	P -	P171	P171
Derivative assets	-	165	165
Financial assets at FVOCI	201	330	531
Financial Liabilities:			
Derivative liabilities	-	(1,791)	(1,791)

The Group has no financial instruments valued based on Level 3 as of March 31, 2018 and December 31, 2017. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

11. Significant Transactions During the Period

a. On January 8, 2018, the Parent Company announced a tender offer to holders of its US$750 million USCS with expiration deadline on January 16, 2018. Tenders amounted to US$402 million and were settled by the Parent Company on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. Accrued distributions and premiums paid related to the redemption amounted to US$13.901 million (P1,010) and US$12.059 million (P876), respectively.

   On February 5, 2018, the Parent Company paid distributions amounting to US$13.051 million (P963) to the holders of the remaining US$348 million USCS.

b. On January 19, 2018, the Parent Company issued US$500 million Senior Perpetual Capital Securities (the "SPCS") with an issue price of 100% to partially repurchase and redeem the Parent Company's existing US$750 million USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the nine months ended March 31, 2018 and 2017 are computed as follows:

	2018	2017
Net income attributable to equity holders of the Parent Company	**P5,523**	P5,215
Dividends on preferred shares for the period	**(162)**	(162)
Distributions to the holders of USCS	**(986)**	(1,000)
Net income attributable to common shareholders of the Parent Company (a)	**P4,375**	P4,053
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	**P0.47**	P0.43

As of March 31, 2018 and 2017, the Group has no dilutive debt or equity instruments.

13. Dividends

On March 13, 2018, the BOD of the Parent Company approved the declaration of cash dividends for common and series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.15000	March 27, 2018	April 18, 2018
Series 2A	15.75000	April 12, 2018	May 3, 2018
Series 2B	17.14575	April 12, 2018	May 3, 2018
Series 2A	15.75000	July 16, 2018	August 3, 2018
Series 2B	17.14575	July 16, 2018	August 3, 2018

14. Commitments and Contingencies

Supply and Lease Agreements

The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company’s crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter’s standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter’s standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015 both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of “Liabilities for crude oil and petroleum products” account in the consolidated statements of financial position.

On September 30, 2009, the Parent Company through New Ventures Realty Corporation (NVRC) entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises were reappraised in 2017 (Note 15) and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of March 31, 2018, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

<u>Unused Letters of Credit and Outstanding Standby Letters of Credit</u>
Petron has unused letters of credit totaling approximately P23,314 and P19,515 as of March 31, 2018 and December 31, 2017, respectively.

<u>Tax Credit Certificates-Related Matters</u>
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 March 31, 2018.

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of March 31, 2018.

<u>Other Proceedings</u>
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.

15. Other Matters

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

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

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

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

   The court-mandated mediation conference held on February 5, 2018 was terminated without any agreement between the parties. The case was then ordered re-raffle for the judicial dispute resolution proceeding. As of March 13, 2018, the Parent Company was awaiting the notice on the date for the re-raffle.

b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.

c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2018.

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

Gross Domestic Product (GDP)

GDP expanded year-on-year by 6.7% in 2017, slightly below the 6.9% growth in 2016. The slowdown was mainly due to election year base effects, deceleration in private investments and plateauing growth in BPO sector.

Economic growth, in percentage	**2015**	**2016**	**2017**
GDP	6.1	6.9	6.7
By Industry			
Agriculture	0.1	(1.3)	3.9
Industry	6.4	8.4	7.2
Services	6.9	7.4	6.7
By Expenditure			
Household Consumption	6.3	7.0	5.8
Government Consumption	7.6	8.4	7.3
Capital Formation	18.4	23.7	9.0
Exports	8.5	10.7	19.2
Imports	14.6	18.5	17.6

The demand side was driven by Household Consumption which expanded by 5.8% and accounted for 60% of total growth. Government Consumption was still healthy at 7.3% on the back of strong disbursements for public services and social protection programs. On the other hand, Capital Formation decelerated from a double digit growth of 23.7% in 2016 to 9.0% in 2017 due to slow implementation of big-ticket infrastructure projects. Export was robust at 19.2%, but growth was dampened by strong Imports due to robust domestic demand.

Growth on the supply side was driven by Services which expanded by 6.7%, supported by Trade, and Real Estate, Renting and Business Activities. Industry also showed strength at 7.2%, underpinned by healthy Manufacturing subsector. Public Construction picked up, but was partly offset by modest growth in Private Construction consequent to the shift from public-private partnerships (PPPs) to a public initiated approach. Agriculture recovered to 3.9% after El Nino season in 2016.

The Philippines was the third fastest growing major economy in Asia, next to China and Vietnam.

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

91-day T-Bill rates averaged 2.65% in 1Q 2018, higher compared to 2.05% in 4Q 2017 and 2.08% in the same period last year. The gradual 0.25%-point increase in the US Federal interest rate in December 2016, March 2017 and June 2017 affected inflow of foreign funds, and liquidity of the developing countries.

PDST-R2 averaged 2.81% in 1Q 2018, higher than 2.20% in 1Q 2017.

Peso-Dollar Exchange Rate
The peso averaged Php51.47/US$ in 1Q 2018, weaker by 1.07% from Php50.92/US$ in 4Q 2017, and by 2.84% from Php50.00/US$ in the same period last year. Weakening of emerging market currencies is due in large part to the three 0.25%-point US Fed interest rate hikes in 2017 and uncertainties over further hikes in the short term.

Inflation
The rate of increase in prices of commodities and services averaged 3.8% in 1Q 2018, faster than 3.0% in 4Q 2017 and 2.9% in the same period last year. The uptrend was underpinned by the tax reform law, higher energy prices and weaker peso.

Industry Oil Demand
Oil demand[1] grew by 6.4% from 142,914 MB in 2016 to 152,011 in 2017. Growth due to a favorable business environment (e.g., manageable inflation and strong vehicle sales growth of 18%) was partly offset by lower fuel consumption for power generation. Lower demand from the power sector is consequent to the shift to cheaper sources of energy like coal, geothermal, hydro, solar and wind.

Oil Market
Year-on-year prices of Dubai increased by 20.6% to average 63.96 $/bbl in 1Q 2018 from 53.03 $/bbl in the same period last year. High compliance to the OPEC/Non-OPEC production cut agreement, geo-political tensions lowering supply in Venezuela and Iran, and robust demand supported increase in prices. Product cracks moved in different directions with middle distillate cracks improving on the back of tighter balances, while Gasoline cracks took a dip due to supply glut in the region.

Existing or Probable Government Regulation

Tax Reform Bill. Republic Act 10963 imposes phased increase in excise taxes on petroleum products from 2018-2020. Schedule of increase is P2.65-2-1/li per year for gasoline, P2.50-2-1.50/li for diesel and fuel oil, P1-1-1/kg for LPG, and P0.33-0-0/li for jet fuel. The incremental excise tax will further be subject to 12% VAT.

Higher excise taxes can potentially constrain demand growth especially for LPG given there are substitutes such as charcoal, kerosene and electric, and Gasoline with public transportation as alternative.

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

[1] Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Direct Imports by end-users of Naphtha, Condensate, Avturbo, Diesel, and Asphalt. FY 2017 is latest published data.

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

Renewable Energy Act of 2008 (the "Renewable Energy Act"). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind) through various tax incentives. Renewable energy developers will be given a seven-year income tax holiday. The power generated from these sources will be VAT-exempt and facilities to be used or imported will also have tax incentives.

Compliance with Euro 4 standards. In September 2010, the Department of Environment and Natural Resources issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015-06-0004 entitled "Implementing the Corresponding Philippine National Standard Specifications for the Euro 4 PH Fuels Complying with the Euro 4/IV Emissions" directing all oil companies to adopt Euro 4-compliant fuels. With its Refinery Master Plan - 2, Petron had been producing Euro 4-compliant fuels ahead of the 2016 mandate.

LPG Bill. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices.

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

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

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

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

Cabotage Law. Republic Act No. 10668, approved in July 2015, amended the decades-old Cabotage Law and now allows foreign ships carrying imported cargoes and cargoes to be exported out of the country to dock in multiple ports. Foreign vessels will be allowed to transport and co-load foreign cargoes for domestic trans-shipment. This seeks to lower the cost of shipping export cargoes from Philippine ports to international ports and import cargoes from international ports.

PETRON CORPORATION AND SUBSIDIARIES
RECEIVABLES
As of March 31, 2018
(Amounts in Million Pesos)

Breakdown:	
Accounts Receivable – Trade	**P31,065**
Accounts Receivable – Non-Trade	11,766
Total Accounts Receivable	**P42,831**

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P30,305
	31 – 60 days	457
	61 – 90 days	214
	Over 90 days	958
Total		**31,934**
Allowance for doubtful accounts		869
Accounts Receivable – Trade		**P31,065**

Interim Financial Report as of March 31, 2018

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

Financial Performance

2018 vs 2017

Petron Corporation registered consolidated net income of **₱ 5.79 billion** for the first three months (1Q) of 2018, 4% higher than previous year's ₱ 5.56 billion profit as the company continued to focus on more profitable segments of the market and optimized production volume.

			Variance- Fav (Unfav)	
(In Million Pesos)	**2018**	**2017**	**Amt**	**%**
Sales	**129,112**	**106,412**	**22,700**	**21**
Cost of Goods Sold	**116,938**	**94,485**	**(22,453)**	**(24)**
Gross Profit	**12,174**	**11,927**	**247**	**2**
Selling and Administrative Expenses	**3,378**	**3,069**	**(309)**	**(10)**
Non-operating Charges	**1,452**	**1,744**	**292**	**17**
Net Income	**5,786**	**5,555**	**231**	**4**
EBITDA	**11,944**	**11,734**	**210**	**2**
Sales Volume (MB)	**26,558**	**26,602**	**(44)**	**0**
Earnings per Share (₱)	**0.47**	**0.43**	**0.04**	**9**
Return on Sales (%)	**4.5**	**5.2**	**(.70)**	**(14)**

Earnings before interest, taxes, depreciation and amortization (EBITDA) also increased by 2% to **₱ 11.94** billion while **earnings per share** for the first quarter grew to **₱ 0.47** from ₱ 0.43 in previous year.

Better 2018 results versus 2017 can be traced to the following:

- **Consolidated sales volume** of **26.6 million barrels (MMB)** was relatively flat vs. 2017**.** The 199 thousand barrels (MB) decline in Exports and lower volume of the trading company, PSTPL, by 871 MB were partly offset by the 5% (1 MMB) increase in consolidated domestic volume. On a per product basis, in the Philippines, increases were noted in gasoline, kero/jet and polypropylene partly offset by lower diesel and LPG sales. In Malaysia, all products registered volume growth.

- **Net sales** went up by 21% from ₱ 106.41 billion to **₱ 129.11 billion** owing to the rise in average selling prices as prices of finished products in the region climbed up along with the movement in global crude oil prices. Regional reference crude Dubai averaged US$64/bbl during the first quarter of 2018, 20% higher than the US$53/bbl in 1Q 2017. The effect was further intensified by the higher excise tax with the implementation of the TRAIN law and ₱ 1.49 average depreciation of Philippine peso versus the US dollar.

- **Cost of goods sold (CGS)** rose by 24% or ₱ 22.45 billion to **₱ 116.94 billion** traced to the increase in cost of crude and imported products and incremental excise tax on petroleum products. Gross margin grew by 2% to ₱ 12.17 billion due to better product cracks and higher net inventory gain partly offset by the increase in hedging loss on cracks.

- **Selling and administrative expenses (OPEX)** increased by ₱ 309 million to **₱ 3.38 billion** primarily due to higher LPG cylinder purchases and rent expenses.

- **Net financing costs and other charges** at ₱ 1.45 billion was reduced by 17% from last year's ₱ 1.74 billion driven by lower interest expense due to significant reduction in average borrowing level and rate vs. 1Q 2017 particularly by Petron Malaysia. This was further boosted by higher net forex/hedging gains and interest income.

- **Income tax expense** of **₱ 1.56 billion** was at par with last year's level as higher pre-tax income this quarter was offset by higher income tax holiday benefit.

2017 vs 2016

For the first quarter of 2017, Petron Corporation earned a consolidated net income of **₱ 5.56 billion**, more than double prior year's ₱ 2.76 billion profit mainly due to strong focus on more profitable segments, production of higher margin fuels and petrochemicals, and operational efficiency.

			Variance- Fav (Unfav)	
(In Million Pesos)	**2017**	**2016**	**Amt**	**%**
Sales	**106,412**	**76,857**	**29,555**	**38**
Cost of Goods Sold	**94,485**	**67,915**	**(26,570)**	**(39)**
Gross Profit	**11,927**	**8,942**	**2,985**	**33**
Selling and Administrative Expenses	**3,069**	**3,178**	**109**	**3**
Non-operating Charges	**1,744**	**2,274**	**530**	**23**
Net Income	**5,555**	**2,758**	**2,797**	**high**
EBITDA	**11,734**	**7,931**	**3,803**	**48**
Sales Volume (MB)	**26,602**	**25,817**	**785**	**3**
Earnings per Share (₱)	**0.43**	**0.17**	**0.26**	**high**
Return on Sales (%)	**5.2**	**3.6**	**1.6**	**44**

Similarly, **Earnings before interest, taxes, depreciation and amortization** grew by 48% to ₱ 11.73 billion owing to better operating income.

Earnings per share stood higher at **₱ 0.43** vis-à-vis ₱ 0.17 in previous year, while **return on sales** increased from 3.6% to **5.2%.**

The exceptional performance during the first quarter of 2017 versus 2016 are driven by the following:

- **Consolidated sales volume** reached **26.6 million barrels (MMB)** from previous year's 25.8 MMB. In the Philippines, growth was exhibited in the following trades: Export sales by 18%, Retail by 6%, LPG business by 5%, and Lubes by 16% though partly tempered by the decreases in Supply and Industrial sales. On a per product basis, higher gasoline, petrochemicals and kero/jet sales were partly offset by lower diesel. Meanwhile, for its Malaysian operations, the incremental volume emanated from Industrial and Retail sales by 14% and 3%, respectively, mainly driven by gasoline and kero/jet sales.

- **Net sales** surged by 38% or ₱ 29.56 billion to **₱ 106.41 billion** due to the increase in average selling prices as regional market prices of finished products rose along with the upward movement in global crude oil prices. During the period, benchmark crude Dubai averaged US$53/bbl, 75% higher than the US$30/bbl in 1Q 2016. This was further boosted by the ₱ 2.73 average depreciation of Philippine peso versus the US dollar. Higher volume sold also contributed to the increase in revenues.

- Likewise, **Cost of goods sold (CGS)** went up by 39% to **₱ 94.49 billion** from last year's ₱ 67.92 billion due to the more expensive crude and imported products coupled by the cost of incremental volume sold. Gross margin improved on account of the reversal of the net inventory losses last year to net gains in 1Q 2017, improved refining cost efficiencies as well as higher margins from export sales of petrochemicals.

- **Selling and administrative expenses (OPEX)** decreased slightly from ₱ 3.18 billion in 1Q 2016 to **₱ 3.07 billion** due to lower advertising expenses partly offset by higher LPG cylinder purchases and rental expenses.

- **Net financing costs and other charges** dropped by ₱ 0.53 billion to **₱ 1.74 billion** from ₱ 2.27 billion last year as the Company reported a marked-to-market (MTM) gain on its outstanding commodity hedge positions and a net forex/hedging gains during the 1Q 2017, compared to losses in 1Q 2016, tempered by higher financing cost from increased borrowing level and rate.

- **Income tax expense** amounted to **₱ 1.56 billion** from ₱ 0.73 billion in the same period last year due to higher pre-tax income.

Financial Position

2018 vs 2017

The **consolidated assets** of Petron Corporation and Subsidiaries as of March 31, 2018 reached **₱ 356.04 billion, 5% or ₱ 18.01 billion higher** than end-December 2017 balance of **₱ 338.03 billion** mainly due to the increases in inventories, trade receivables and cash and cash equivalents.

Cash and cash equivalents increased by ₱ 3.78 billion to **₱ 20.79 billion** mainly from funds generated by operations, coupled by the net proceeds from the issuance of the Senior Perpetual Capital Securities (SPCS), reduced by the partial redemption of the existing Undated Subordinated Capital Securities (USCS).

Financial assets at fair value through profit or loss declined to **₱ 289 million** from ₱ 336 million on account of lower MTM gains on outstanding commodity hedges.

Trade and other receivables – net surged to **₱ 42.83 billion, 12% or ₱ 4.67 billion** higher than end-2017 level of ₱ 38.16 billion brought about by the increase in average selling prices.

Inventories – net increased by **12% or ₱ 6.59 billion to ₱ 63.20 billion** from ₱ 56.60 million as at end-December 2017 fueled by the escalation in volume, cost of crude and finished products as well as higher excise taxes.

Deferred tax assets – net which mainly pertained to PM, increased by 9% or ₱ 19 million to **₱ 226 million** mainly due to the strengthening of the Ringgit versus the US dollar coupled by the depreciation of the PHP against US dollar.

Goodwill – net went up to **₱ 9.09 billion** from ₱ 8.28 billion arising from the business acquisition of PM with the appreciation of the US dollar versus the Philippine peso.

Liabilities for crude and petroleum products rose by 9% (₱ 3.48 billion) to **₱ 40.40 billion** driven by higher prices of outstanding crude and product purchases.

Trade and other payables increased by 17% from ₱ 11.60 billion to **₱ 13.54 billion** mainly due to higher liabilities to contractors and vendors.

Derivative liabilities dropped from ₱ 1.79 billion to **₱ 0.84 billion** attributed to lower MTM losses on outstanding commodity and currency hedges.

Income tax payable increased from ₱ 808 million to **₱ 923 million** owing to PM's higher taxable income.

Deferred tax liabilities - net rose by 7% from ₱ 7.40 billion to **₱ 7.93 billion** brought about mainly by temporary differences arising from the different method of depreciation for tax reporting and financial accounting by the Parent company and lower derivative liabilities, partially offset by unrealized forex loss.

Other noncurrent liabilities amounted to **₱ 1.17 billion**, up by 13% or ₱ 137 million from end-2017 level due to higher customers' deposit on LPG cylinder.

Capital securities moved up by 28% to **₱ 39.05 billion** traced to the US$500 million issuance of the SPCS partly countered by the US$402 million redemption of the Undated subordinated capital securities (USCS).

The negative balance of **Equity reserves** increased by 31% or ₱ 1.61 billion to **₱ 6.78 billion** due to the recognition of loss on redemption of USCS, tempered by the currency translation gains on investments in foreign operations with the strengthening of the US dollar versus the Philippine peso.

Non-controlling interests increased by 13% to **₱ 6.77 billion** essentially due to the share in net income of minority shareholders

<u>2017 vs 2016</u>

Petron's **consolidated assets** as of March 31, 2017 stood at **₱ 319.99 billion**, higher by ₱ 1.10 billion vs. December 31, 2016 level of ₱ 318.89 billion, mainly on account of the increases in input taxes and inventories tempered by the collection of receivables from the Malaysian government and the decrease in Property, Plant and Equipment.

Other current assets rose by 6% or ₱ 1.97 billion to **₱ 34.47 billion** due to higher input tax on imported crude and petroleum products partly offset by the utilization of tax credit certificates of the Parent Company.

Derivative liabilities significantly dropped from ₱ 778 million to **₱ 208 million** brought about by the decline in marked-to-market (MTM) loss on outstanding commodity hedge position partly offset by higher MTM loss on currency hedges.

Income tax payable increased by 26% (₱ 166 million) to **₱ 792 million**, due to higher tax due of Petron Malaysia during the first quarter of 2017.

Deferred tax liabilities-net went up to **₱ 6.32 billion** from ₱ 5.73 billion attributed mainly to the temporary difference arising from the accelerated depreciation method adopted by the Parent Company for tax reporting purposes.

Other noncurrent liabilities escalated by 12% or ₱ 113 million to **₱ 1.07 billion** with the increase in LPG cylinder deposit.

Retained earnings improved by 5% to **₱ 43.97 billion** from ₱ 42.01 billion as of end 2016, essentially due to the net income posted during the period reduced by the payment of cash dividends and distributions.

Negative **equity reserves** were trimmed down from ₱ 7.20 billion to **₱ 6.59 billion** owing to the currency revaluation gains on the Company's investments in foreign operations caused by the stronger US dollar versus the Philippine peso.

Non-controlling interests (NCI) amounted to **₱ 4.76 billion**, ₱ 0.43 billion more than the ₱ 4.33 billion level as of December 31, 2016 due to the share in net income and foreign currency translation gains of the minority shareholders.

Cash Flows

2018 vs 2017

As of March 31, 2018, cash and cash equivalents stood at ₱ 20.79 billion. Cash generated from operations during the first three months of 2018 amounted to **₱ 15.97 billion**, more than enough to cover for working capital requirements, payment of interest and taxes and investments in various capital projects in the Refinery, terminals and service stations. Financing activities generated ₱ 2.35 billion after deducting the payment for cash dividends and distributions.

In Million Pesos	**March 31, 2018**	**March 31, 2017**	**Change**
Operating inflows	2,825	5,391	(2,566)
Investing outflows	(1,578)	(1,591)	13
Financing inflows/(outflows)	2,346	(3,795)	6,141

2017 vs 2016

During the first quarter of 2017, Petron's operations provided cash inflows of **₱ 12.01 billion,** more than enough to fund net working capital requirements (₱ 4.35 billion), interests (₱ 1.88 billion) and income taxes (₱ 0.35 billion). The balance of internally-generated funds was used to settle short-term and long-term loans, finance capital projects, service station network expansion program and for payment of cash dividends and distributions.

Discussion of the company's key performance indicators:

Ratio	**March 31, 2018**	**December 31, 2017**
Current Ratio	1.2	1.2
Debt to Equity Ratio	2.3	2.4
Return on Equity (%)	13.7	15.0
Interest Rate Coverage Ratio	4.9	3.2
Assets to Equity Ratio	3.3	3.4

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

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

Debt to Equity Ratio - Total liabilities divided by total stockholders' equity.

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

Return on Equity – Annualized net income divided by average total stockholders' equity.

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

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

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

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

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

PART II – OTHER INFORMATION

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

NONE.

SIGNATURES

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

Registrant: PETRON CORPORATION

Signature and Title: ______________________________

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

Date: May 10, 2018

Principal Financial/Accounting Officer/Controller

Signature and Title: ______________________________

DENNIS S. JANSON
Assistant Vice President - Controllers

Date: May 10, 2018

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	March 31, 2018	December 31, 2017
Liquidity			
a) Current Ratio	Current Assets / Current Liabilities	**1.23**	1.17
Solvency			
b) Debt to Equity Ratio	Total Liabilities / Total Equity	**2.26**	2.39
c) Asset to Equity Ratio	Total Assets / Total Equity	**3.26**	3.39
Profitability			
d) Return on Average Equity[a]	Net Income / Average Total Equity	**13.71%**	14.95%
e) Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges	**4.85**	3.22

[a] *trailing 12 months net income*