



PETRON

BLAZING THROUGH

107.8 MILLION BARRELS SOLD  
P14.1 BILLION NET INCOME  
3,000 SERVICE STATIONS  
PETRON BLAZE 100 EURO 6  
OVER 15,000 SCHOLARS SINCE 2002

2017

ANNUAL REPORT

# BLAZING THROUGH

From new and innovative products to better operational efficiencies to far-reaching programs for nation-building, our drive for excellence allowed us to Blaze Through and reach new levels of success in 2017. We aim to further raise the bar and deliver even better results as the industry leader, fuel innovator, and a force for change.

## Our Vision and Mission

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

We will achieve this by:

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

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# We are Petron

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

Here in the Philippines, we supply nearly 40% of the country's total fuel requirements through the operation of our 180,000 barrel-per-day oil refinery in Bataan. Considered one of the most advanced facilities in the region, our refinery processes crude oil into a full range of petroleum products including gasoline, diesel, LPG, jet fuel, kerosene and petrochemicals.

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

Through 2,400 service stations – the most extensive in the country – we retail gasoline, diesel, and autoLPG to motorists and the public transport sector. Our wide range of world-class fuels includes Blaze 100 Euro 6, XCS, Xtra Advance, Turbo Diesel and Diesel Max. We also sell our LPG brands Gasul and Fiesta Gas to households and commercial consumers through an extensive retail network.

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

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

In line with our efforts to increase our presence in the region, we continue to expand our business in Malaysia, which comprises an integrated refining, distribution, and marketing business. We operate an 88,000 barrel-per-day refinery in Port Dickson, 11 storage facilities and a retail network of 600 service stations.

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

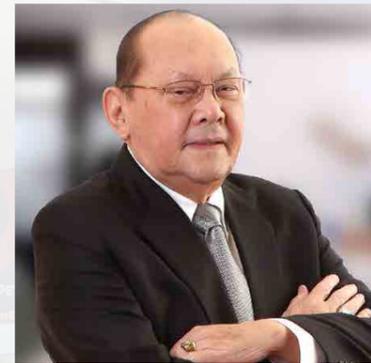
We are guided by our vision “to be the leading provider of total customer solutions in the energy sector and its derivative businesses.”



# Message

to Stockholders

“ We stayed well ahead of competition as we leveraged on the roll-out of more innovative fuels, our extensive value chain, and our passion to bring the unique Petron experience to more consumers. ”



Eduardo M. Cojuangco, Jr.  
Chairman

#### Dear Shareholders,

Your company Petron Corporation delivered another year of extraordinary performance in 2017. We focused on strategies that led to unprecedented sales volumes, significant expansion of our retail network, higher sales of profitable products, and upgraded distribution and production capabilities. We rolled out programs that allowed us to reach more consumers and more markets and better respond to the needs of both our

customers and business partners both in our domestic market and in Malaysia.

The year was not one without challenges - cost of goods rose along with our working capital. OPEC and non-OPEC countries complied to an agreement among producers to cut output of oil production, which resulted to a 29 percent increase in the benchmark Dubai crude, averaging US\$53.17 per barrel in 2017. While domestic demand for oil continued to grow, growth was not as strong as 2016 as higher pump prices and price competition resulted in lower offtake.

Despite these, we were able to sustain our momentum in 2017, helped by the buoyancy of the Malaysian and Philippine economies - today among the top performing in Asia. With higher demand from the transportation sector and as large-scale infrastructure projects get underway, we see strong growth in both markets over the medium-term and this bodes well for our business. Sustained refining margins and cost savings in logistics helped us post the best results in company history.

#### Unprecedented

The extraordinary results of 2017 have made us more confident and ambitious about the future.

We posted a consolidated net income of P14.1 billion, a 30 percent increase from the previous year's earnings of P10.8 billion. Consolidated sales revenues grew by 26 percent to P434.6 billion in 2017 from P343.8 billion in the previous year. Operating income increased by 16 percent to P27.6 billion during the period.

Our consolidated volumes, too, reached record-highs hitting 107.8 million barrels last year from 105.7 million in 2016. Our high-octane performance was driven by increased premium fuel penetration as gasoline and Jet A-1 sales saw double-digit growth. Our high-margin lubricants business grew by 15 percent as we successfully reformulated our world-class engine oils and made our products available in more non-traditional outlets. Petrochemicals (e.g. propylene) provided good margins and additional revenue as volumes grew another 9 percent.

“ We continued to differentiate the **Petron brand** by further leveraging our production capabilities and innovation mindset to produce even better products. ”



Ramon S. Ang  
President and Chief Executive Officer

that we build and stream positively impacts the local community. These include the creation of jobs from the initial construction to operation, injection of spending into the local economy, and the value of increased convenience and efficiency. Truly, each Petron station contributes to nation-building.

But our expansion didn't stop there. Our LPG brands **Gasul** and **Fiesta Gas** and our automotive lubricants **Blaze Racing** and **Rev-X** are now available in hundreds more distributors and retail outlets. For added customer comfort, we opened nearly 60 convenience stores in both markets.

We stayed well ahead of competition as we leveraged on the roll-out of more innovative fuels, our extensive value chain, and our passion to bring the unique Petron experience to more consumers.

In the Philippines, we added nearly 200 service stations and ended the year with 2,400 – more than the total of our next three competitors combined. Together with the additional stations built in Malaysia, we marked another milestone, breaching the 3,000-mark of Petron filling stations in the region.

While our retail expansion emphasizes our aim to capture more demand and make our high-quality fuels and services available to more consumers, each station

We continued to differentiate the Petron brand by further leveraging our production capabilities and innovation mindset to produce even better products. These products give our customers more savings as they ensure more mileage, more power, and better engine protection. A prime example is the launch of the best gasoline in the Philippines – **Petron Blaze 100 Euro 6** – in early 2017. Not only is it the best performing gasoline in the market, it is the first and only fuel that meets the Euro 6 global emission standard.

In Malaysia, **Blaze 100 Euro 4M**, the only one of its kind gasoline, and **Turbo Diesel Euro 5** have become the fuels of choice for modern day cars and high-

performance vehicles. Both products gained more traction and were made available in more service stations due to higher demand.

We continued to partner with more establishments to give our loyal customers more savings, rewards, and lifestyle experiences. Combined, our **Petron Value Card** and **Petron Miles Card** members now number 4.7 million active users – another breakthrough for your company.

Our strong performance in 2017 was anchored on a simple principle: Give our customers the best products, the best services, and the best experiences. Throughout the organization, from every terminal, every station, and every office, we took this commitment to heart and we were rewarded with the trust and confidence of more customers.

#### Superior Value Chain

From procurement, inbound logistics, production, distribution, marketing, to after-sales service, we make sure that all activities throughout our value chain create the most value to customers. That is our priority.

Last year, our Petron Bataan Refinery (PBR), the most modern refining and petrochemicals facility in the country, reached a new milestone with the

“Through continuous improvements and innovations across our business, we will be able to sustain profitability, growth, and stability.”

utilization rate of nearly 90 percent - the highest ever rate recorded - despite a month-long maintenance turnaround. PBR fueled our sales momentum as it produced more gasoline, diesel, Jet A-1, and petrochemicals. We also marked the 9th straight year that PBR was certified as meeting all international standards on environmental management, workplace safety, and process quality.

At our Port Dickson Refinery (PDR), we are studying the addition of more units to comply with the government's mandate to introduce more environment-friendly diesel by 2020. PDR was also cited by prestigious organizations namely the Prime Minister's Hibiscus Award (environmental performance) and the Malaysian Society Occupational Safety & Health Award.

The success of our business is anchored on prudent and sustainable business practices. With over 40 terminals and facilities spread across two countries, we continuously challenge ourselves to go the extra mile and do better. As of end 2017, we accumulated nearly 100 million man-hours without lost time incidents.

Under our Logistics Master Plan, an initiative that integrates our value chain and support increasing sales volumes, we continued to upgrade our operational resilience with an eye to ensure 100 percent reliability as the preferred fuels supplier.

In our domestic market, we added roughly 540,000 barrels of product storage capacity even as we plan to expand current facilities. We are planning to build more storage facilities at PDR to reduce costs by allowing bigger import parcels.

We've innovated to improve efficiency and inventory management. We reduced our tank truck turnaround times by 21 percent in our local facilities. Our expanded Inventory Driven Delivery System (IDDS) in said terminals allowed us to improve our on-time delivery performance to 95 percent.

Our superior logistics allow us to be there for our customers, anytime, anywhere.

### Powerful Partnerships for Positive Change

Petron Corporation marks its 85th anniversary this 2018. In all these years, our efforts were aligned with the promise of prosperity for the Philippines. Our success as a business continues to be a catalyst to build the nation.

Together with the Department of Education (DepEd) and the Department of Social Welfare and Development (DSWD), our flagship **Tulong Aral ng Petron (TAP)** has helped graduate 8,700 marginalized children from our fenceline communities and we are currently helping 3,200 more scholars nationwide. From their ranks, we have employed several with more of our newly-minted engineers and accountants expected to join the Petron family. By enabling their success, we are securing your company's future and the country's as well.

Across our facilities, we were able to plant 46,000 trees and mangroves in 2017 with the help of local communities in support of the Department of Environment and Natural Resources (DENR) National Greening Program. We started to plant in our adopted reforestation sites in Tacloban and Capiz.

Through our **Lakbay Alalay** program, we are able to provide safety assistance to thousands of motorists yearly. Over the past 32 years, it continues to evolve and has become a venue for road safety awareness nationwide.

We also have similar programs in Malaysia. By working closely with the Royal Malaysia Police (RMP) in the **Go-to-Safety-Points** program, all 600 plus Petron stations have been converted to "safe havens" for victims seeking emergency assistance.

With our nationwide reach, we are able to engage and sustain more communities and provide livelihood and entrepreneurship opportunities. Through these programs, we are able to address relevant social issues and uplift the lives of others. In doing so, we encourage more economic activity and fuel demand.

### Fuel Extraordinary

Looking ahead, there is more we need to do and we are confident that we are on the right track. Through continuous improvements and innovations across our business, we will be able to sustain profitability, growth, and stability.

This year promises to be especially challenging with the new fuel taxes expected to impinge on growth. With our ability to quickly adapt to trends and changes in the business climate, we are confident we will remain the market leader; secure even better results, and continue to be a great company to work in and to own.

Finally, we would like to thank our shareholders, our employees, business partners, and our customers for their continued trust and engagement. With your contributions, we can be assured of sustaining our company for the next 85 years as we continue to fuel hope, fuel lives, and fuel extraordinary.



Eduardo M. Cojuangco, Jr.  
Chairman



Ramon S. Ang  
President and Chief Executive Officer

# Expanding

## Horizons

Our commitment to provide a consistent supply of fuels enabled us to widen our already extensive reach and bring our products and services closer to every Filipino.



Newly-built Petron service stations fronting each other along South Luzon Expressway.

# Bolstering Our Market Leadership

We accelerated our growth to an unprecedented level in 2017. From a record-breaking year, we set our sights on bolstering our market leadership by further expanding our retail footprint, providing superior customer service, and offering innovative products that highlight our unique understanding of the Filipino consumer. This allowed us to reach new milestones, set new records, and add to our storied history.

We broadened our already extensive reach as we completed 200 stations, ending the year with nearly 2,400. Complementing the growth of our network of service stations, we built about 30 new **San Mig Food Ave.** and **Treats** convenience stores and partnered with 50 new food and lifestyle locators to serve our customers better.

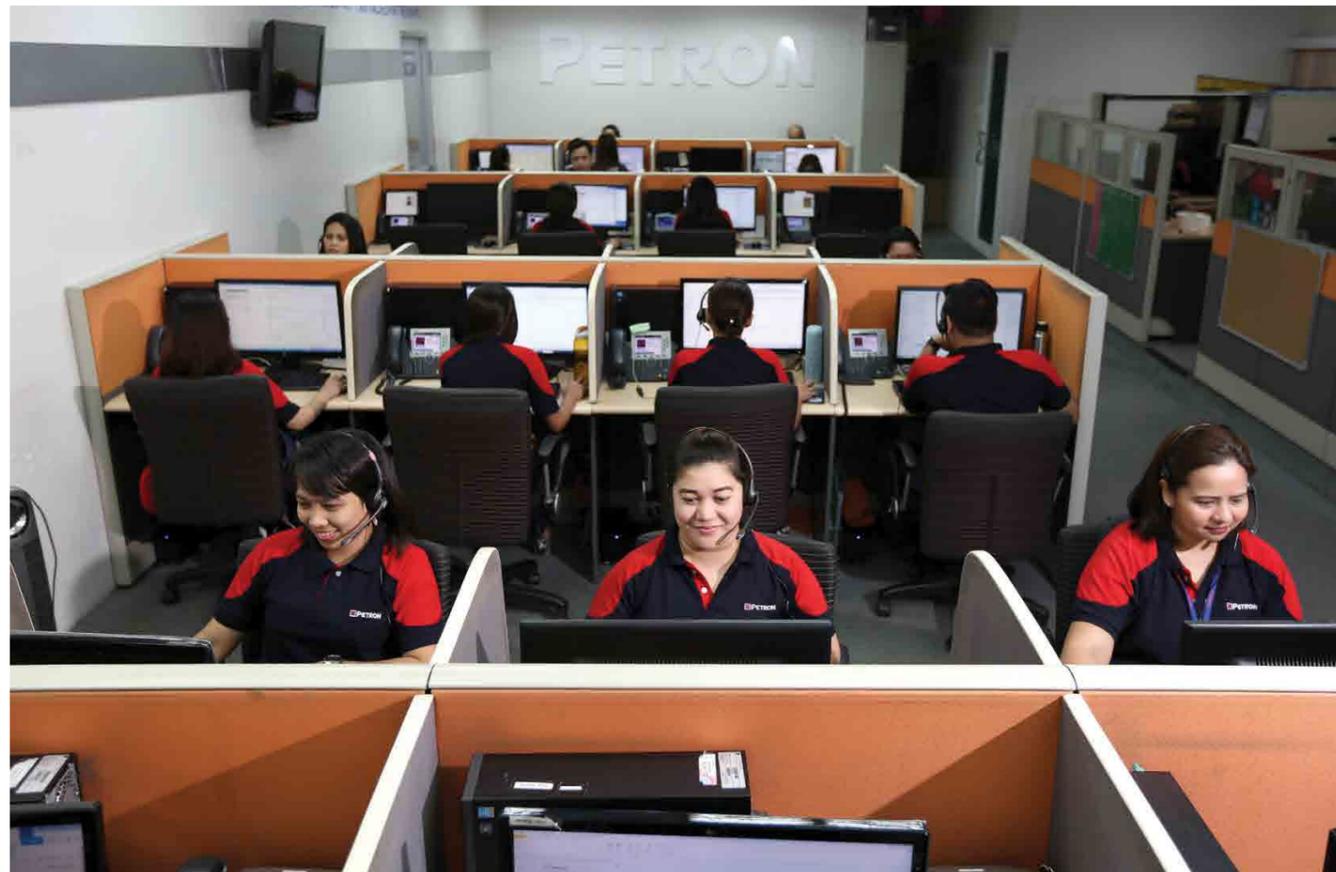


From a record-breaking year, we set our sights on bolstering our market leadership by further expanding our retail footprint.

**2,400**  
Service Stations

Spread throughout the country, our stations range from mega stations on major highways to small, strategically-located ones in rural areas.

“We further responded to our competitors’ relentless efforts to increase market share through a host of world-class products that fulfill the needs of our customers.”



Customers are guaranteed to have fast, personalized, and accurate feedback 24/7 whenever they reach us through our Talk2Us channels.

Our world-class Jet-A1 fuel powered the U.S. government’s Air Force One, the most advanced aircraft in the world, during the Asia-Pacific Economic Council (APEC) Summit held in Manila.



We also increased the number of our LPG branch stores and exclusive retail outlets by more than 800, bringing the total to close to 4,300. Our safe, reliable, and efficient LPG brands **Gasul** and **Fiesta Gas** continued to be the preferred brands and, in turn, helped increase retail volumes by over 9 percent.

Our industrial volumes stood strong driven by our leadership in the aviation sector as this business grew by another 9 percent.

We remained the preferred partner of leading local and international airlines, reinforcing our position as the trusted source of world-class fuels in the country. This was evident when we refueled several aircrafts used by world leaders during the ASEAN and APEC Summit including that of the United States, Russia, Japan, Singapore, New Zealand, among others.

The market penetration of our Lubes products **Blaze Racing** and **Rev-X**, meanwhile, posted double-digit growth as we continued to bring our products closer to motorists. Our Lubes are now in 14,800 auto-supply shops nationwide.

We also began to offer our full line of engine oils online on Lazada, the largest online shopping site in the country, to give consumers added convenience.

We further responded to our competitors’ relentless efforts to increase market share through a host of world-class products that fulfill the needs of our customers.

We continued to reward our loyal patrons with more opportunities for discounts and points conversion using their **Petron Value Card (PVC)**. In 2017, we welcomed nearly one million users of this first-of-its kind motorist card. Grab and Wheeltek joined our growing list of strategic partners, making way for additional benefits and privileges for our co-branded cardholders.

Consistent with our commitment to make everyday a “Petron Best Day” for Filipino motorists, we streamlined our feedback channels for voice (#PETRON), SMS (0977-8-PETRON), and email (talk2us@petron.com) by launching **Talk2Us**, which provides fast, personalized, and accurate feedback to customers 24/7.



With millions of users, Petron Value Card is the first and only motorist card in the country that rewards loyal customers with points and other exclusive benefits.

Our trailblazing fuels ensured that we remain at the forefront of fuel innovation. **Petron Blaze 100 Euro 6** was recognized as the best fuel in the country by leading global experts. Produced and formulated locally at our Bataan refinery, Petron Blaze 100 is the first and only Euro 6 fuel in the Philippines that conforms to the world's most advanced fuel and environmental standards. It has the highest octane but lowest sulfur content at less than 3 ppm (parts per million). This is even lower compared to the Euro 6 standard of 10 ppm maximum and much lower than the government mandated 50 ppm (Euro 4).

Its superior qualities – among them powerful engine performance, acceleration, improved fuel efficiency, significantly reduced harmful emissions, and cleaner engines – were affirmed in no less than the high-octane world of racing when we powered the Philippine leg of the Formula 4 South East Asia Championship (F4 SEA). Our fully-synthetic **Petron Blaze Racing Engine Oil**, which helps reduce engine stress even at high temperatures, also earned the approval of F4 racers and organizers.

Likewise, we were once again tapped by the Department of Energy (DOE) for their fuel economy run following the success of the first **DOE-Petron**

**Fuel Economy Run** in 2016. Using our premium XCS gasoline, a sedan posted a Fuel Efficiency Rating (FER) of over 29 kilometers per liter while an SUV using Turbo Diesel logged over 33 kilometers per liter during the 216 kilometer efficiency run.

Besides providing customers with the best fuels, we also develop engine oils suitable for local driving conditions. We rolled out our **High Temperature Protection (HTP)** products, which are formulated to optimize engine performance and address vehicle stress under extreme heat.

Offering custom solutions for industrial clients, we launched **Petromar HF**, a premium quality marine lubricating oil for new generation trunk pistol diesel engines. This new product was approved by Wärtsilä and Sulzer engines, one of the world's best marine engines.

As we strive to sustain the fuel needs of Filipinos, we make sure that our products also remain at par with international standards. We secured certifications and approvals for our lubricants from accredited licensing institutions and original equipment manufacturers (OEMs) to demonstrate our capability to compete on the global stage.



Millbrook Proving Ground, which provides validation and engineering services in the automotive, transport, and defense industries, tested and verified the optimum qualities of Blaze 100 Euro 6.



The results of the 2017 DOE-Petron Fuel Economy Run held on a 216-kilometer route along the Subic-Tarlac-Expressway (SCTEX) and Tarlac-Pangasinan-La Union Expressway (TPLEX) affirmed our Euro 4 fuels' TriAction advantages.



We continued to roll-out world-class and revolutionary products that meet the diverse needs of every Filipino motorist, as well as every type of vehicle.



We powered the Formula 4 South East Asia (F4SEA) Championship 2017 Season, putting our proudly Philippine-made Petron Blaze 100 Euro 6 and Petron Blaze Racing Engine Oil to the ultimate test.

“ Besides providing customers with the best fuels, we also develop engine oils suitable for local driving conditions. ”

# Fueling Breakthroughs



Petron was the first oil company to launch unleaded gasoline in **1994**.



This was followed by the roll-out of the first low-sulfur diesel in **1998**.



We were also the first oil company to locally produce fuels that meet Euro 4 standards. As early as June **2015**, the Company rolled out its line of Euro-4 fuels ahead of the government's mandate of January 2016.



We made history again in **2017** after launching Petron Blaze 100 Euro 6 – the country's cleanest and most advanced gasoline that meets Euro 6 standards, the most stringent fuel technology and emission benchmark in the world today.

# Pushing our Capabilities Further

At the heart of our operations is the Petron Bataan Refinery (PBR), the country's biggest and most advanced oil refining facility. This engineering marvel served as the driving force behind our record-high performance as it continued to produce more high-value petroleum products and petrochemicals.

The Refinery Master Plan Phase-2 (RMP-2) has allowed us to fully utilize the refinery's 180,000 barrel-per-day capacity by converting our remaining fuel oil production into a wide range of high-margin white products such as LPG, gasoline, diesel, Jet-A1, and petrochemicals.

In 2017, despite our refinery undergoing a one-month scheduled maintenance turnaround, we still attained a utilization rate of nearly 90 percent, the highest in company history, and a clear and direct result of the solid foundations we laid in previous years.



“ This engineering marvel served as the driving force behind our record-high performance. ”

180,000  
Barrels/Day



RMP-2 enables us to fully utilize the Petron Bataan Refinery's 180,000 barrel-per-day capacity.



A testimony to the Filipinos' ingenuity and innovativeness, our upgraded refinery underscores our commitment to nation-building. By lessening our dependence on imported finished products, we continuously improve our fuel supply security and support strategic industries such as manufacturing, power-generation, and transportation. Also critical to our role in driving economic development is our polypropylene production, which continued to grow over the years.

The year 2017 also marked PBR's 9th year of adhering to the International Management Systems (IMS). With our

PBR engineers at the helm, we passed the IMS External Audit of TUV SUD PSB Phils. in accordance with the latest version of the International standard on Quality Management System (ISO 9001 version 2015) and Environmental Management System (ISO 14001 version 2015), while maintaining the Occupational Health and Safety Management System (BS OHSAS version 2007).

In 2017, we tracked a total of 6.9 million safe-man hours without lost time incidents demonstrating our unparalleled workplace safety culture.

“ By lessening our dependence on imported finished products, we continuously improve our fuel supply security and support strategic industries.”

# Ensuring Safety and Efficiency Every Step of the Way

During the year, total domestic sales volumes were 5 percent higher or almost 7,000 barrels more than planned. Despite the increase, our reliable distribution network ensured the safe and efficient transport of our products to about

30 terminals and manufacturing plants before reaching our 2,400 service stations nationwide. Throughout this process, we maintained the highest standards in terms of process quality, workplace safety, and environmental management.



**541,000**  
Barrels of added storage capacity



Under the Logistics Master Plan, we are building more and more capabilities to support rising demand.

“ We were guided by our promise to provide our countrymen with an uninterrupted supply of fuel to build a stronger nation. ”

The dynamic nature of our industry compels us to consistently aim for operational excellence. Under our Logistics Master Plan, a program that further integrates our logistics supply chain and supports our refinery's increased operational tempo, we continued to enhance our terminal capacities and modernize our system.

To support increasing demand in high-growth areas, we added new storage tanks all over the country giving us an additional capacity of 541 thousand barrels for high-value, white products. As we continued to grow the business, we were guided by our promise to provide our countrymen with an uninterrupted supply of fuel to build a stronger nation.



“We implemented an even more robust Delivery Continuity Plan to ensure minimal disruption during calamities and special events.”

During the height of the Marawi Siege we ensured product availability at the Laguindingan and Lumbia military airport in support of our Filipino troops. Our Operations Group mobilized Into-Plane (ITP) refueling equipment in order to refuel the Philippine Airforce's aircrafts. Affirming our position as the leading provider of quality Jet-A1 in the country, we also added ITP refueling services in Caticlan and Tagbilaran in Visayas to cater to growing demand from local and international flights.

We implemented an even more robust Delivery Continuity Plan to ensure minimal disruption during calamities and special events of national significance. The development of a Centralized Monitoring

System, in turn, will allow us to monitor tank trucks 24/7 to support delivery fulfilment, ensure product security, and enhance journey management.

To preserve the safety and reliability of our product chain, we consistently conducted health, safety, security, and environment inspections in our facilities. These include regular inspection of receiving, storage, and out-loading facilities to guarantee their reliable and efficient use in support of increased demand. We continue to adopt globally-accepted technology for preventive maintenance of storage tanks and pipelines to ensure uninterrupted operations.



Into-Plane (ITP) refueling equipment was mobilized to ensure product availability at the Laguindingan and Lumbia military airports in support of Filipino troops during the height of the Marawi Siege.

**Environmental Health and Safety Performance**

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

Greening Programs	
Terminal Ecowatch Program	Encompasses six environmental areas in its assessment: Wastewater Quality Management Air Quality Management Solid Waste Management Toxic and Hazardous Waste Management Environmental Impact Assessment Environmental Management Systems

Environmental Certificates and Awards	
Platinum-rated facilities in the 2017 Terminal EcoWatch Program with platinum being the highest possible rating for compliance, pollution prevention, and continuous improvement	Bawing Terminal Tagoloan Terminal
CTSG-Environment Best Environment Initiative Awardee	Mandaue Terminal
DOLE No Lost Time Accident Regional Awardee	Rosario Terminal
DOLE Zero Accident Awardee	Zamboanga Terminal
DENR Plaque of Recognition Regional Awardee	JOCASP Aviation Terminal
DENR Industrial Ecowatch Silver Awardee	Bawing Terminal
Trained under Petron's nationwide Basic Pollution Control program recognized by the DENR-EMB in preparation for Pollution Control Officer accreditation	394 Petron Service Station dealers, personnel, and contractors

“ We also intensified our green initiatives promoting energy efficiency, carbon footprint reduction, and waste management. ”

Regular training on live fire control, as well as oil spill and explosion hazard, is conducted on a regular basis.



We also intensified our green initiatives promoting energy efficiency, carbon footprint reduction, and waste management. Underscoring our strict adherence to environmental management standards, two of our terminals – Bawing and Tagoloan – reached platinum status in our EcoWatch program, an internal monitoring system that measures our facilities' environmental performance.

Our vigilance towards occupational safety and health, and environment standards merited several recognitions. Our Mactan depot won the Top Stakeholder Award from the Department of Education, while our Iligan Terminal was named Cleanest and Most Orderly Depot by the Philippine Ports Authority, Bureau of Fire Protection, and Philippine Coast Guard. Our San Fernando Terminal, meanwhile, was awarded as the city's Most Environment Friendly Facility. On top of these achievements, we continued to improve our safe-man hours record, which reached an accumulated 72 million hours without lost-time injury as of end 2017.

During the year, 26 terminals successfully migrated their management systems for quality and environment to the higher ISO 9001:2015 and ISO 14001:2015 standards.



Alongside upgrading our product supply chain management, we made sure that our people are well trained and adept at handling emergencies. Training activities were held year-round to enhance our personnel's capabilities and improve their skills on various aspects of terminal operations. We also continued to heavily invest in disaster preparedness and specialized training on handling oil spill response, live fire control, fire and explosion hazard management, among others.

Under the Ecowatch program, Petron facilities undergo rigorous auditing on wastewater, solid waste, air quality, among others.

# Harnessing Excellence

from within



“ We inaugurated the Petron Sales Academy, a learning facility dedicated to the continuous growth and improvement of our sales force. ”

### Training Hours for Petron Philippines Employees

	2017	2016	2015
Average hours of training per year per employee	48	61	49
Total training hours for all Petron employees	120,457	151,080	114,848

### 2017 Social Performance

 Labor Practices	 Health and Safety	 Human Rights	 Product Responsibility
<b>2,533</b> Number of employees (Philippines)	<b>6.9 million</b> Safe-man hours for PBR in 2017	<b>Zero</b> Incidence of child labor in any aspect of operations	<b>187,914</b> Feedback and inquiries received and handled by Petron Customer Relations Group and Sales Support Services
<b>5.86%</b> attrition rate, lower than industry's 15%	<b>73 million accumulated</b> Safe-man hours for Operations	<b>Zero</b> Incidence of discrimination in any aspect of operations	
<b>100%</b> percentage of employees receiving regular performance reviews		<b>Zero</b> Operations and Suppliers identified in which the right to exercise freedom of association and collective bargaining may be at risk	

Our success is a product of our teamwork and shared commitment to give our customers the best experience at every touch point. As we scaled unprecedented heights, we continued to leverage on our people – our most important asset.

Nearly 230 new employees joined the company in 2017 in keeping with our continuing expansion and constantly changing industry landscape. To accelerate the development of younger members of our workforce, we dedicated an average of 48 hours of training per employee. We noted a decrease in the aggregate training hours due to lesser number of training programs compared to 2016, during

which hiring and foreign and in-house training for PBR employees were at its peak.

Focusing on career advancement and competency training, our general management and leadership development programs were constantly updated to identify and hone key talents as well as prepare our next generation of leaders.

Meanwhile, we inaugurated the Petron Sales Academy, a learning facility dedicated to the continuous growth and improvement of our sales force. This center of excellence is situated inside our Pandacan Terminal and features a display of old photos and equipment that demonstrate our extensive and storied history.

We continuously strive to keep our employees satisfied and secured through tailored and competitive benefits packages, work-life integration activities, and a safe working environment. Our commitment to health and safety is further reflected in our comprehensive medical assistance, which includes regular medical examinations, vaccinations, health advisories, and safety trainings. These are also extended to our employees' dependents as well as to the immediate communities where we are present.

# Setting New Standards in Malaysia

Like in the Philippines, our strategic and bold initiatives in Petron Malaysia led to a record-breaking 2017. We revved up our growth by building our brand, expanding our retail presence, and unleashing more benefits from our value chain. Six years since Petron's debut in Malaysia, we now stand as one of the country's leading and fastest growing oil companies.



Fueling happy journeys lies at the heart of our operations.

In Retail, we continued to grow our service station network, which now total over 600. To bring customers utmost comfort and convenience, we opened new Treats and P. Kedai convenience stores, partnered with more fast food restaurants, and opened car wash facilities in selected areas.

Due to increasing demand, we now offer our Blaze 100 Euro 4M, the country's first and only RON 100 fuel, in over 70 stations. Locally produced at our Port Dickson Refinery, Blaze 100 Euro 4M has become the fuel of choice of motorists particularly for high-performance vehicles.

We also continued to participate in events that demonstrate our products' unique advantages. We were also the official fuel and engine oil sponsor of



We reached a new milestone in Malaysia as we opened our 600th station in Behrang Layby.



88,000  
Barrels/Day



For more than 50 years, our Port Dickson Refinery - the third largest producer and supplier of the country's fuel needs - has earned a reputation for safety and refining excellence.

the Malaysian leg of the 2017 Formula 4 South East Asia (F4SEA) Championship, underscoring the performance benefits of our Blaze 100 Euro 4M and its namesake Blaze Racing Engine Oil. Our environment-friendly Turbo Diesel Euro 5 also proved its competitive edge after powering the Rain Forest Challenge, one of the world's toughest 4x4 races.

We were also the official fuel and engine oil sponsor of the Malaysian leg of the 2017 Formula 4 South East Asia (F4SEA) Championship, underscoring the performance benefits of our Blaze 100 Euro 4M and its namesake Blaze Racing Engine Oil.

“ We revved up our growth by building our brand, expanding our retail presence, and unleashing more benefits from our value chain. ”

Making sure that every visit to Petron is a rewarding experience, we partnered with fellow leaders from other industries to give Petron Miles Card holders more discounts and exclusive benefits. Likewise, our corporate fuel card Petron Fleet Card, which uses the latest microchip technology, was widely used by corporations, small to medium industries, and fleet companies in managing their fuel expenses safely and more economically.

We opened new distribution outlets to support market demand for safe and reliable LPG products. Petron Gasul has grown more popular among Malaysian households, while our recently launched 50KG industrial cylinders cater to more industrial customers. We also noted an uptrend in our volumes from the aviation sector due to the sustained confidence of multi-national and regional carriers in our brand. To improve our services, we procured a new hydrant dispenser for refueling aircrafts at the Kuala Lumpur International Airport (KLIA) Distribution Terminal, enabling faster and more efficient refueling.

The safe and on-time delivery of our products is among many reasons why more and more customers and industrial clients in Malaysia trust in our brand. To ensure a more reliable supply of fuel and support future growth, we continue with our plans to upgrade several facilities in our Port Dickson Refinery

Our 50kg industrial cylinder is growing more popular among industrial customers.



To satisfy increasing demand in the aviation sector, we acquired a new hydrant dispenser for more efficient refueling services.

and Terminals. The Port Dickson Refinery, Bagan Luar Terminals in Penang and Pasir Gudang Terminal in Johor received their ISO-9001 certification on Quality Management while the Kuantan Terminal in Pahang is the first to achieve Integrated Management System ISO certification for Quality, Safety and Environment in 2017 by SIRIM.

As a further testament to our compliance to the highest health, safety and environment standards, almost all our terminals were awarded with numerous recognitions by the Malaysia Occupational Safety and Health (MSOSH) Organization and our Port Dickson Refinery and Sepang Bay Terminal in Sabah received the prestigious Prime Minister's Hibiscus award for Exceptional Achievement and Notable Achievement in Environmental Performance respectively.



The safe, efficient, and on-time delivery of our products also forms part of our dedication to customer service excellence.

More and more multi-national and regional carriers trust in the Petron brand as evidenced by Petron Aviation's continuously growing sales.

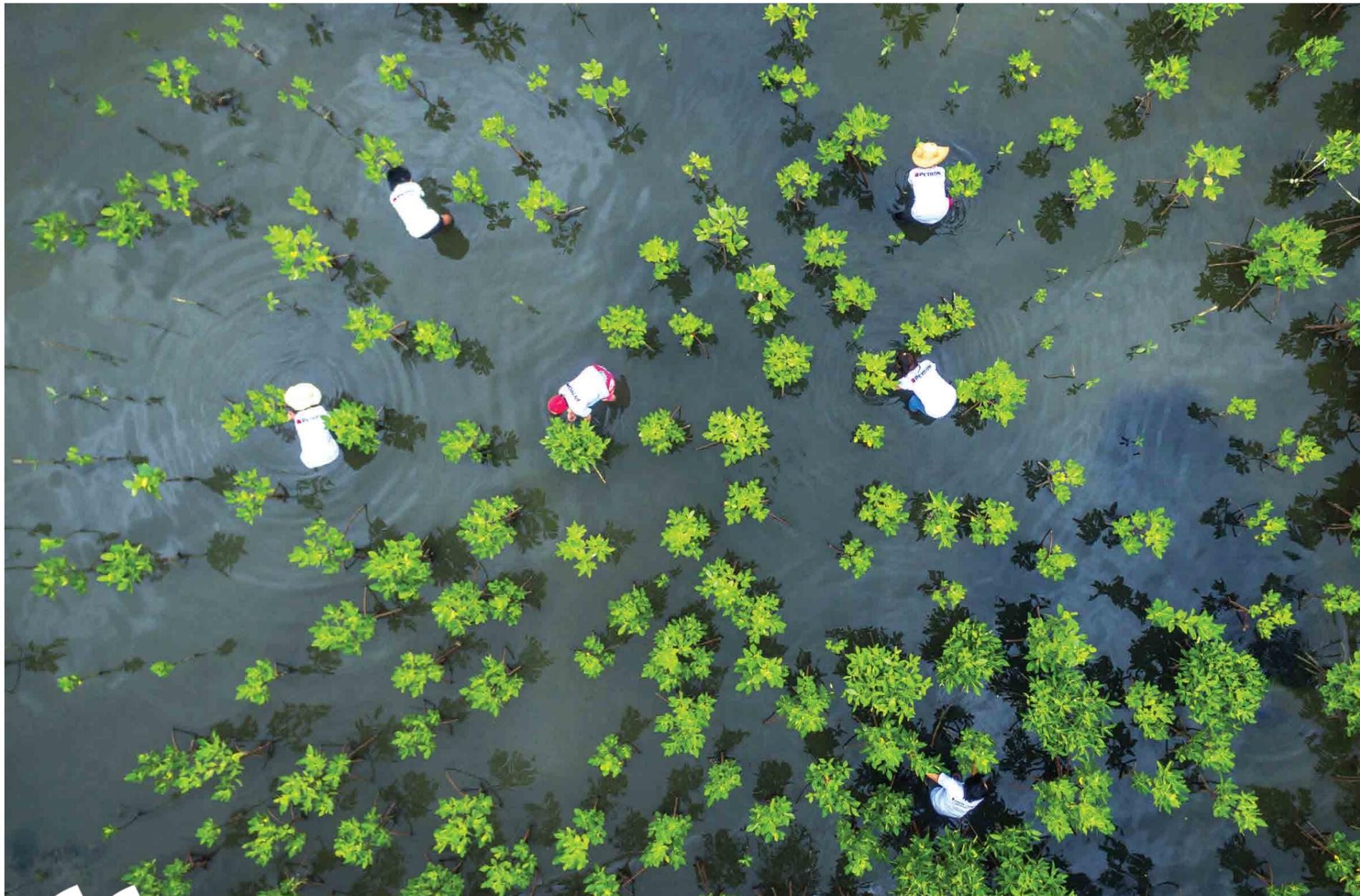
“ Our terminals have reached a safety milestone of 22.7 million safe man-hours or more than 20 years without lost time injury. ”



CORPORATE SOCIAL RESPONSIBILITY

# Championing HOPE

Fueling HOPE, which stands for Helping Overcome Poverty Through Education, is our corporate purpose. We uplift the lives of our countrymen, and in the process help build a stronger, more progressive nation.



## Serving Our Communities Even Better

Our commitment to grow along with our communities ran deeper in 2017. Through the efforts of Petron Foundation, we continued to uplift the lives of millions of Filipinos with sustainable programs under our banner advocacy, Fueling HOPE (Helping Overcome Poverty Through Education). Aside from education, our initiatives also extend to the environment, entrepreneurship and livelihood, and health and human services.

We continued to provide scholarships to elementary, high school, and college students through **Tulong Aral ng Petron (TAP)** in partnership with the Department of Social Welfare and Development (DSWD), Department of Education (DepEd), Philippines Business for Social Progress (PBSP), and World Vision Development Foundation.

In 2017, we had almost 3,200 scholars from elementary to college in partner schools in Metro Manila and various provinces. A total of 563 scholars from NCR and Mindanao graduated from elementary with the top scholars granted a high school scholarship.

The year 2017 also saw us welcoming into the organization another one of our long-time scholars, Mark Joel Dela Cruz, who had just graduated from the Mapua Institute of Technology with a BS degree in Civil Engineering. He joins other former TAP scholars who are now proud Petron employees. At the same time, our engineering scholarship program continued to produce competent engineers now working in our Bataan Refinery.



Tulong Aral ng Petron scholars receive their school supplies and pick out their shoes for the new school year.

“Our commitment to grow along with our communities ran deeper in 2017.”

  
3,200  
Scholars in 2017

Trainees from Muntinlupa Business High School spend the summer at our service stations to develop entrepreneurial skills.



Located inside Camp Crame in Quezon City, the PNP-Petron Children's Road Safety Park is an open space featuring a driving lane that winds across multiple traffic markers and other instructional signages.



Our **Youth in Entrepreneurship and Leadership (YIELD)** Program benefitted incoming 4th year high school students at the Muntinlupa Business High School (MBHS). More than 50 students spent a productive summer learning about back office and food service operations in selected Petron service stations.

We also heightened our efforts to promote road safety particularly among the youth. Together with the Philippine National Police (PNP), we opened the **PNP-Petron Children's Road Safety Park** inside Camp Crame to create an interactive venue where children can learn about proper road safety practices. This complements our **Lakbay Ligas** program, another joint effort with the PNP, which further grew in scope in 2017.

We continued to provide safety assistance to motorists while spreading road safety awareness through **Lakbay Alalay**, the country's longest-running motorist assistance program. Over the last 32 years, it has progressed from being a simple motorist assistance project to a full-blown road safety program spanning across different occasions, areas, and platforms.

Our award-winning student art competition **Vision Petron** entered its 17th year with the theme "*Tuklas Kagalingan*." To mark the occasion, we mounted the first ever Vision Petron exhibit at the BenCab Museum with the national artist Benedicto Cabrera himself serving as chairman of the 2017 Vision Petron board of judges.

## 17 Years of Fueling Creativity



Petron believes in promoting the arts as a tool for nation-building. For over 17 years, our national student art competition Vision Petron has been tapping into the artistic talents of young artists, inspiring them to become instruments of nation-building.

In celebration of its 17th anniversary, Vision Petron brought together some of the finest works from its first 15 years in an exhibit hosted by Benedicto Cabrera or more popularly known as BenCab in his Baguio City museum. The national artist was also the Chairman of Vision Petron's board of judges for the year.

"It's important to showcase the Vision Petron collection, which has helped boost the careers of young Filipino artists. The collection, a selection of winning entries, highlights the artists' emerging styles, individual methods of self-expression and search for identity," he explains.

Vision Petron 2017 culminated in a memorable event at the Old Senate Hall of the National Museum. A total of 62 young Filipino artists from all over the country bested almost 1,000 entries in five categories: Painting in watercolor; Painting in oil/acrylic; Photography; T-shirt Design; Video-Making and Music.

"Vision Petron is an opportunity to refuel my passion. Winning is just a bonus because the important thing is to tell a story behind our photographs. It is a venue for young artists like me to show our talents because our stories can reach wider audiences," shares Rina Paula Burgos, a law student from the University of the Cordilleras and grand prize Winner in this year's photography category. Mark Kenneth Garcia, a student at Museo ng Probinsya ng Tarlac and a grand prize winner in the painting category, is also grateful for his experience joining Vision Petron. "Vision Petron has helped me greatly. I've gained a lot of recognition and new opportunities. Numerous invitations to exhibits and work opportunities have also come my way which are few and far between before," he imparts.

Vision Petron has been widely acclaimed by different award-giving bodies, and has produced notable graduates including the likes of Orley Ypon, CJ de Silva-Ong, Robert Besana, Mark Andy Garcia, Paul Quiambao, and Hector Barretto Calma, to name a few.

Through its history, Vision Petron has won more than 150 awards from different award-giving bodies. In 2017, it bagged four awards in the IABC Philippine Quill Awards. The Vision Petron folio has also been inducted to the Anvil Hall of Fame for consistently bringing home a Gold Anvil year after year.

Meanwhile, we sustained our leadership role in the Bataan Integrated Coastal Management Program (BICMP). One of the major achievements in 2017 is the publication of the State of the Coasts Report for Bataan, which aims to help the LGU and local businesses strengthen the province's development agenda. We also renewed our support for the Pawikan Festival to help raise awareness on the endangered marine sea turtle.

We also continued to show our support for the Department of National Resources' (DENR) National Greening Program. Three of our five adopted reforestation sites in Tacloban have already captured 120 tons of carbon or 40 tons of carbon per hectare from

mangroves planted in 2016. We also partnered with the LGUs in Ivisan, Capiz to reforest 25 hectares of mangrove area.

To help in the development and implementation of our environmental programs, we continued to nurture our scholars in the Professional Masters in Tropical Marine Ecosystems Management (PM-TMEM) program of the University of the Philippines Marine Science Institute.

Our Petron Community Clinic offers free consultation, X-Ray, ECG, ultrasound, and laboratory services.



Newly-hatched pawikans making their way to the sea, with Petron volunteers on patrol to make sure they start their journey unharmed.

One of our volunteers from Limay Terminal lend a hand in greening Mother Earth by planting tree saplings.



We also provided assistance to families displaced by typhoon Nina in Pasacao, Camarines Sur in the form of P4.5M worth of shelter repair kits through PBSP. A total of 340 families each received P15K worth of construction materials to help rebuild their homes and start a new life.

Volunteerism is deeply rooted in the Petron culture. Through our **Volunteers in Action (VIA)** program, more than 1,000 Petron employees contributed over 6,500 hours to help the company fulfill its corporate purpose.

Petron employees also joined their colleagues in the **San Miguel Group** in other volunteering activities, which include

We contributed to the health and wellness of 5,500 individuals through our Bataan and Pandacan **Petron Community Clinic**, which offers free consultation, X-ray, ECG, ultrasound and laboratory services. Medical missions were also held year-round in Limay, Bataan, benefitting nearly 5,000 residents. Free medicines were also provided at the community clinics and during medical missions.

Our entrepreneurship programs are also enriching the lives of our fenceline communities. The women of Limay and mothers of TAP scholars in Rosario, Cavite continued to supply the rag requirements of the Refinery and our Rosario Terminal, respectively. We also donated an ambulance to Brgy. Mainaga in Mabini, Batangas to help improve emergency response in the area.



Petron Volunteers repainting classrooms in Bagong Silangan Elementary School in Quezon City, as part of Team Malasakit.

“ More than 1,000 Petron employees contributed over 6,500 hours to help the company fulfill its corporate purpose. ”

“We are proud of our unprecedented success in 2017. But we are prouder of how we are able to fuel real and lasting change in the lives of others.”

### 2017 Petron Philippines Corporate Social Responsibility Performance



#### Education

**3,445**

Tulong Aral ng Petron (TAP) scholars (elementary to college) for SY 2017-2018

**563**

TAP graduates (elementary, highschool and college) in April 2017

**530**

Number of additional scholars in Luzon and Visayas as part of TAP expansion in 2017

**Over 15,000**

TAP scholars since Year 2002

**288**

Classrooms repaired/ refurbished under Brigada Eskwela in 2017

**10,187**

Teachers, school heads and administrators trained on effective early grade reading instruction since year 2008

**1,251**

Muntinlupa Business High School 3rd year students who took part in the on-the-job training under Petron's Youth in Entrepreneurship and Leadership Development (YIELD) program since year 2006



#### Environment

**47**

Tree planting activities by the depots

**45,785**

Mangrove propagules and seedlings planted

**58.4 kilometers**

Length of coastline cleaned from coastal cleanup activities

**68,900 kilograms**

Solid Waste collected

**387 Tons**

Carbon sequestered from our combined mangrove sites in Tacloban and Roxas



#### Community

**100**

Percentage of Petron terminals and depots undertaking social development and initiatives

**22,413**

Hours spent on volunteer work

**5,692**

Number of residents of Bataan and Pandacan, Manila served in Petron clinics

**Almost 4,000**

Beneficiaries of Petron's Livelihood Loan Assistance Program since 2011

## Inspiring Others to Serve



Volunteerism in Petron has been widely practiced for decades. For more than 30 years now, we have been enlisting the help of our employees to carry out various road safety and CSR programs as we strive to make a valuable impact on the lives of Filipinos.

The success of these programs is anchored on their sustainability – from their conceptualization to their implementation – and on strong partnerships that help them flourish. However, the lifeblood will always be our volunteers. With more than 1,000 active volunteers engaged in various programs throughout the year, volunteerism has also become a way of life in the company.

While most of our volunteers are considered among the young guns of the company, some of our consistent volunteers have been with the company almost all their adult life. For Dolor Romero, who has been with the company for 35 years, volunteering has become second nature to her as a Petron employee.

“Doing volunteer work makes a person happy. It’s a good way to make new friends in the company and you will learn how to deal with a variety of people,” she shares.

Her favorite among the many CSR programs of the company is **Tulong Aral ng Petron**, which allows her to impart her skills as a mother to young scholars. For her, volunteerism is no longer a duty but a source of inspiration and fulfillment.

“Being a mother and now a grandmother, volunteering fulfills me when I see how it benefits the community. We should raise children seeing the importance of helping others,” she adds.

To this day, Petron is one of the very few companies in the country to reach 100% volunteerism. Together with our commitment to nation-building, we endeavor to increase our employee engagement to enrich the lives of our communities and our employees as well.



Road safety seminars are conducted all over Malaysia to help spread road safety awareness.



Our partnership with the Royal Malaysia Police continued to help make communities safer in areas where we are present.

building houses, painting of classroom, repacking of relief goods, and gift-giving during Christmas.

We are proud to have received numerous citations recognizing our work in the past year: TAP and **Automotive Care Education (ACE)**, which provides free technical-vocational education in automotive servicing for out-of-school-youth, won a total of three awards in the 2017 Public Relation Society of the Philippines' Anvil Awards, while TAP emerged as one of the winners in the IABC Philippines Quill Awards.

Our promise to fuel hope also drives **Petron Malaysia** to help those in need through various CSR programs.

We continued to promote road safety in the country in partnership with like-minded organizations. We remained a partner of Royal Malaysia Police's (RMP) **Go-To-Safety Points (GTSP)** program with our wide network of service stations serving as safe havens for those seeking emergency assistance.

Together with the Road Safety Department, we organized a road safety campaign in seven universities throughout Peninsular Malaysia, as well as in two secondary schools in Kuantan and Sungai

Petani. These allowed us to further enlighten the Malaysian youth on road safety practices.

To empower the youth, we continued to encourage and inspire future leaders to excel in academics, sports, and the arts through our support for the State Education Department and the State Government of Negeri Sembilan.

We also initiated efforts to help protect and preserve the environment. Together with local municipalities, we conducted greening and beach cleanup activities like the **"Kempen Bumi Hijau"** project.

Petron Malaysia also espouses the values of volunteerism and employee engagement. Throughout the year, our employee-volunteers actively participated in different health, environment, and education programs that help improve the lives of our stakeholders.

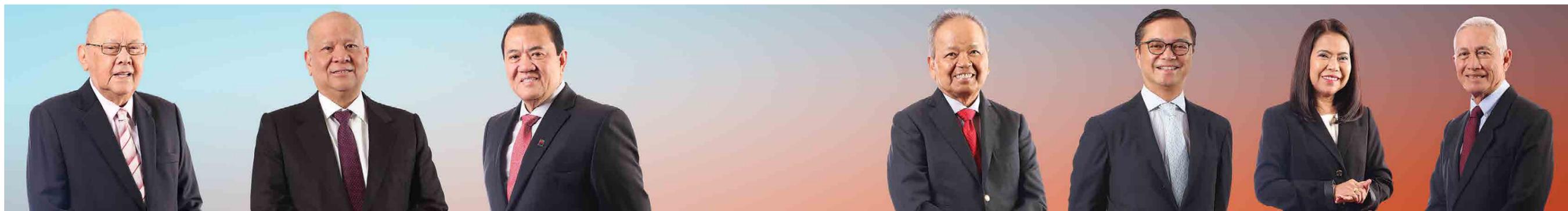
We are proud of our unprecedented success in 2017. But we are prouder of how we are able to fuel real and lasting change in the lives of others. This, more than anything, is what tells us that the work we do matters.



"Rediscovering Ingenuity of Youth" was the theme for Vision Petron in 2017, marking the nationwide competition's 5th year in Malaysia.

“ Throughout the year, our employee-volunteers actively participated in different health, environment, and education programs that help improve the lives of our stakeholders. ”

# Board of Directors



## Eduardo M. Cojuangco, Jr.

Eduardo M. Cojuangco, Jr., Filipino, born 1935, 82 years old, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive Committee of the Company. He presently holds the following positions, namely: Chairman and Chief Executive Officer of San Miguel Corporation ("SMC") and Ginebra San Miguel, Inc. ("GSMI"); Chairman of ECJ & Sons Agricultural Enterprises Inc., San Miguel Pure Foods Company, Inc. ("SMPFC"), Eduardo Cojuangco Jr. Foundation Inc. and Northern Cement Corporation; and Director of Caiñaman Farms Inc. Mr. Cojuangco was formerly a director of the Manila Electric Company, member of the Philippine House of Representatives (1970-1972), Governor of Tarlac Province (1967-1979) and Philippine Ambassador-Plenipotentiary. He also served as the President and Chief Executive Officer of United Coconut Planters Bank, President and Director of United Coconut Life Assurance Corporation and Governor of the Development Bank of the Philippines. He attended the College of Agriculture at the University of the Philippines — Los Baños and the California Polytechnic College in San Luis Obispo, U.S.A. and was conferred a post graduate degree in Economics, honoris causa, from the University of Mindanao, a post graduate degree in Agri-Business, honoris causa, from the Tarlac College of Agriculture, a post graduate degree in Humanities, honoris causa, from the University of Negros Occidental-Recoletos, and a post graduate degree in Humanities, honoris causa, from the Tarlac State University.

Of the companies in which Mr. Cojuangco currently holds directorships, Petron-affiliates SMC, GSMI and SMPFC are listed with the Philippine Stock Exchange ("PSE").

## Ramon S. Ang

Ramon S. Ang, Filipino, born 1954, 64 years old, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. He holds the following positions, among others: Chairman of Petron Malaysia Refining & Marketing Bhd. ("PMRMB"), Petron Fuel International Sdn. Bhd. ("PFISB"), Petron Oil (M) Sdn. Bhd. ("POMSB"), Petron Freepoint Corporation ("PFC"), New Ventures Realty Corporation ("NVRC"), Abreco Realty Corporation, and SEA Refinery Corporation ("SRC"); Chairman and Chief Executive Officer of Petron Marketing Corporation ("PMC"); Chairman and President of Mariveles Landco Corporation ("MLC"), Petrochemical Asia (HK) Ltd. ("PAHL"), and Robinson International Holdings Ltd. ("RIHL"); Petron Oil & Gas Mauritius Ltd. ("POGM") and Petron Oil & Gas International Sdn Bhd. ("POGI"); Vice Chairman, President and Chief Operating Officer of SMC; Chairman of San Miguel Brewery Inc. ("SMB"), San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Manila North Harbour Port, Inc. ("MNHP"), Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Eagle Cement Corporation and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp. and Far East Cement Corporation; Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments, Inc. ("SMEI"), San Miguel Properties, Inc., Chairman of Eagle Cement Corporation; Vice Chairman of GSMI and SMPFC; President and CEO of Top Frontier Investment Holdings Inc. ("Top Frontier") and President Northern Cement Corporation; sole director and shareholder of Master Year Limited and Chairman of Privado Holdings, Inc.; and Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region. Previously, Mr. Ang was Chairman of Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc.; Chairman and President of Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Vice Chairman and Director of Manila Electric Company; Chief Executive Officer of the Paper Industries Corporation of the Philippines, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation; and Director of Air Philippines Corporation. Mr. Ang has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

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

## Lubin B. Nepomuceno

Lubin B. Nepomuceno, Filipino, born 1951, 67 years old has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB, PFISB and POMSB; Director of POGI, LLCDC, NVRC, PFC, PAHL, RIHL and Petron Singapore Trading Pte. Ltd. ("PSTPL"); Chairman of Philippine Polypropylene Inc. ("PPI"); Petrogen Insurance Corporation ("Petrogen") and Overseas Ventures Insurance Corporation Ltd. ("Ovincor"); Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; and President of Archen Technologies, Inc.; Director and General Manager of MLC. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 to February 2013) and the President of the Company (February 2013 to February 2015). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and master's degree in Business Administration from the De La Salle University. He also attended the Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

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

## Artemio V. Panganiban

Artemio V. Panganiban, Filipino, born 1936, 81 years old, has served as an Independent Director of the Company since October 21, 2010. He is the Chairman of the Risk Oversight Committee and a member of the Audit and Corporate Governance Committees. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. He is an adviser of Metropolitan Bank and Trust Company and Bank of the Philippine Islands. He was formerly the Chief Justice of the Supreme Court of the Philippines (2005-2006); Associate Justice of the Supreme Court (1995-2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961-1970). He is an author of over ten books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st Century" conferred by the Supreme Court after he retired in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree (cum laude) from the Far Eastern University in 1960, placed sixth in the bar exam that same year, and holds honorary doctoral degrees in law from several universities.

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

## Eric O. Recto

Eric O. Recto, Filipino, born 1963, 54 years old, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman of Philippine Bank of Communications ("PBCom"); Chairman and CEO of ISM Communications Corporation ("ISM"), and Vice Chairman and President of Atok-Big Wedge Corporation ("Atok"); President and Director of Q-Tech Alliance Holdings, Inc.; and a member of the Board of Supervisors of Acentic GmbH. Mr. Recto was the President and Vice Chairman of the Company (2008-2014), the Chairman and Chief Executive Officer of PFI, and a Director of SMC, PMRMB and the Manila Electric Company ("MERALCO"). He was formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. Prior to his stint with Government, Mr. Recto was Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and a master's degree in Business Administration from the Johnson School, Cornell University.

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

## Aurora T. Calderon

Aurora T. Calderon, Filipino, born 1954, 63 years old, has served as a Director of the Company since August 13, 2010. She is a member of the Audit Committee, Risk Oversight Committee and the Related Party Transaction Committee. She is also an alternate member of the Executive Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of SMC, PMRMB, POGM, POGI, PMC, PFC, PSTPL, SRC, NVRC, LLCDC, SMEI, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Dynamo Telecommunications Company, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc. and various subsidiaries of SMC; and Director and Treasurer of Petron-affiliate Top Frontier. She served as a Director of MERALCO (January 2009-May 2009), PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation and Air Philippines Corporation, Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989). A certified public accountant, Ms. Calderon graduated magna cum laude from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her master's degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

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

## Margarito B. Teves

Margarito B. Teves, Filipino, born 1943, 74 years old, has served as an Independent Director of the Company since May 20, 2014. He is the Chairman of the Corporate Governance and Related Party Transaction Committees and a member of the Audit Committee of the Company. He is also an independent director of SMC and Atok, as well as Alphaland Corporation, Alphaland Balesin Island Club, Inc., AB Capital Investment Corp. and Atlantic Atrium Investments Philippines Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of Think Tank Inc. He was the Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously the President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He was awarded as "2009 Finance Minister of Year/Asia" by the London-based The Banker Magazine. He holds a Master of Arts degree in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

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



#### Estelito P. Mendoza

Estelito P. Mendoza, Filipino, born 1930, 88 years old, served as a Director of the Company from 1974 to 1986; thereafter, since January 8, 2009. He is a member of the Corporate Governance Committee and the Audit Committee. He is likewise a member of the Board of Directors of SMC, Philippine National Bank ("PNB") and Philippine Airlines, Inc. He has now been engaged in the practice of law for more than 60 years, and presently under the firm name Estelito P. Mendoza and Associates. He has been consistently listed for several years as a "Leading Individual in Dispute Resolution" among lawyers in the Philippines in the following directories/journals: "The Asia Legal 500", "Chambers of Asia" and "Which Lawyer" yearbooks. He has also been a Professorial Lecturer of law at the University of the Philippines and served as Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Provincial Governor of Pampanga. He was also the Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization. He holds a Bachelor of Laws degree from the University of the Philippines (cum laude) and Master of Laws degree from Harvard University. He is the recipient on June 28, 2010 of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns and was also awarded by the University of the Philippines Alumni Association its 1975 "Professional Award in Law" and in 2013 its "Lifetime Distinguished Achievement Award".

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

#### Virgilio S. Jacinto

Virgilio S. Jacinto, Filipino, born 1956, 61 years old, has served as a Director of the Company since August 13, 2010. He is a member of the Corporate Governance Committee of the Company. He is also an alternate member of the Executive Committee. He holds the following positions, among others: Corporate Secretary; Compliance Officer; Senior Vice President and General Counsel of SMC; Corporate Secretary and Compliance Officer of Top Frontier and GSMI; Corporate Secretary of other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, a Director of San Miguel Brewery Inc., a Partner of the Villareal Law Offices (June 1985-May 1993) and an Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985). Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (cum laude) where he was the 1981 bar examinations. He holds a Master of Laws degree from Harvard University.

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

#### Mirzan Mahathir

Mirzan Mahathir, Malaysian, born 1958, 59 years old, has served as a Director of the Company since August 13, 2010. He is the Chairman and Chief Executive Officer of Crescent Capital Sdn Bhd, an investment holding and independent strategic and financial advisory firm based in Malaysia. He currently manages his investments in Malaysia and overseas while facilitating business collaboration in the region. He holds directorships in several public and private companies in South East Asia. He is the Chairman of several charitable foundations, a member of the Wharton School Executive Board for Asia and the Business Advisory Council of United Nations ESCAP, and President of the Lawn Tennis Association of Malaysia. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992-2007), Executive Chairman of Sabit Sdn Bhd (1990-1992), Associate of Salomon Brothers in New York, U.S.A. (1986-1990) and Systems Engineer at IBM World Trade Corporation (1982-1985). Mirzan graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his master's degree in Business Administration from the Wharton School, University of Pennsylvania, USA.

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

#### Ron W. Haddock

Ron W. Haddock, American, born 1940, 77 years old, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; and member of the board of Delek Logistics Partners LP. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

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

#### Jose P. de Jesus

Jose P. de Jesus, Filipino, born 1934, 83 years old, has served as a Director of the Company since May 20, 2014. He is also the Chairman of Clark Development Corporation, Converge ICT Solutions, Inc. and Metroworks ICT Construction, Inc. He was the Secretary of the Department of Transportation and Communications (July 2010 to June 2011), the President and Chief Operating Officer of MERALCO (February 2009 to June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 to December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 to December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 to 1993) and the Secretary of the Department of Public Works and Highways (January 1990 to February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was Lux in Domino Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of Holy Angel University and Kapampangan Development Foundation. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.

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

#### Ma. Romela M. Bengzon

Ma. Romela M. Bengzon, Filipino, born 1960, 57 years old, has served as a Director of the Company since August 13, 2010. She holds the following positions, among others: Director of PMC; Managing Partner of the Bengzon Law Firm; formerly, a professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program, the Ateneo Graduate School of Business and Regis University. She was formerly a Philippine government Honorary Trade Ambassador to the European Union, and Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Philippine Office of the President. A Political Science graduate of the University of the Philippines in 1980 (with honors), she obtained her Bachelor of Laws from the Ateneo de Manila University in 1985.

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

#### Nelly F. Villafuerte

Nelly F. Villafuerte, Filipino, born 1937, 81 years old, has served as a Director of the Company since December 1, 2011. She is also a Director of Top Frontier. She is a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is an author of business handbooks on microfinance, credit card transactions, exporting and cyberspace and a four (4)-volume series on the laws on banking and financial intermediaries (Philippines). Atty. Villafuerte has served as Governor of the Board of Investments (1998-2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the DTI (July 1998-May 2000), and Undersecretary for the Regional Operations Group of the Department of Trade and Industry ("DTI") (May 2000-2005). She holds a master's degree in Business Management from the Asian Institute of Management ("AIM") and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked within the top 10 in the bar examinations.

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

#### Reynaldo G. David

Reynaldo G. David, Filipino, born 1942, 75 years old, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and is a member of the Risk Oversight Committee, Corporate Governance Committee and the Related Party Transaction Committee. He is an independent director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and Atok Big Wedge Corporation ("Atok"), Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986), various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), Producers Bank of the Philippines (October 1982-November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979-September 1982), and Vice President and Treasurer of Citibank N.A. (November 1964-February 1979). He was conferred with the Presidential Medal of Merit in 2010. A Ten Outstanding Young Men awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

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

# Corporate Governance

Petron Corporation (“Petron” or the “Company”) believes that corporate governance is a necessary component of what constitutes sound strategic business management and it therefore undertakes every effort necessary to create awareness within the organization.

Petron is committed to pursuing good corporate governance and using good corporate governance principles and practices in the attainment of corporate goals. The Company keeps abreast of new developments in, and leading principles and practices on, good corporate governance. It continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company’s corporate objectives and the best interests of its stakeholders and the Company.

## Corporate Governance Manual

On May 8, 2017, the Board of Directors approved the new Corporate Governance Manual of the Company, which was primarily based on the Code of Corporate Governance for Publicly-Listed Companies approved by the Securities and Exchange Commission (“SEC”) pursuant to its Memorandum Circular No. 19 (2016) (the “Company Corporate Governance Manual”).

The Company Corporate Governance Manual institutionalizes the principles, policies, programs, and procedures of good corporate governance in the entire organization.

Petron is in material compliance with the Company Corporate Governance Manual.

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

Pursuant to the Company Corporate Governance Manual, the Board of Directors has appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary (“OGCCS”), as the Compliance Officer tasked to monitor compliance with the Company Corporate Governance Manual and applicable laws, rules and regulations. The Compliance Officer directly reports to the Chairperson of the Board of Directors and has direct access to the Board of Directors.

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

## Shareholders’ Rights

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

### **Voting Rights of Common and Preferred Shares**

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

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

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

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

### **Right to Information of Shareholders (4.4; 4.16)**

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

In 2017, the notice and agenda of the annual stockholders’ meeting held on May 16, 2017, together with the definitive information statement, were first released on April 7, 2016, 39 days before the meeting. The notice and agenda were further published in The Manila Bulletin and The Philippine Star and on April 11, 2017 and April 12, 2017, respectively. The rationale for each agenda item was explained in the notice and agenda.

Through the definitive information statement prepared by the Company for each annual stockholders’ meeting, the Company publicizes its most recent audited financial statements showing in reasonable detail its assets and liabilities and the result of its operations.

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

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

### Right to Dividends

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

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

Dividends of common shares are paid out within 30 days after the declaration by the Board of Directors, to the extent practicable. On March 14, 2017, a cash dividend of P0.10 per common share was declared and paid out on April 12, 2017.

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

On March 14, 2017, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on May 3, 2017 and August 3, 2017, respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on May 3, 2017 and August 3, 2017, respectively. Further, on August 8, 2017, cash dividends of (a) P15.75 per Series 2A preferred share were declared for two quarters and paid out on November 3, 2017 and February 5, 2018, respectively, and (b) P17.14575 per Series 2B preferred share were also declared for two quarters and paid out on November 3, 2017 and February 5, 2018, respectively.

### Appraisal Right

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

### Rights of Minority Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Authorized representatives of the external auditor are also present at the annual meeting of stockholders to respond to appropriate questions relating to the audited financial statements of the Company.

## Board of Directors

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

### Responsibility, Duties and Functions

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

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

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

### Conflict of Interest and Abstention from Voting in Case of Conflict

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

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

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

### Multiple Board Seats

The Company Corporate Governance Manual requires a director to exercise due discretion in accepting and holding directorships in other companies and ensure that his/her capacity to diligently and efficiently perform his/her duties and responsibilities and regularly update his/her knowledge and skills as a director of the Company is not compromised.

A director is expressly required to notify the Board of Directors before accepting a directorship in another company.

### Composition and Diversity of Background and Skills

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

The Company Corporate Governance Manual expressly recognizes that optimal decision-making in the Board of Directors will be achieved with board diversity. Thus, the differences in age, skills, industry experience, background, gender, competence and knowledge, and other distinctions between and among directors are considered and balanced in determining optimum board composition.

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

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

The membership of the Board of Directors is a combination of executive and non-executive directors (who include the three (3) independent directors as of 2017) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated.

The names, profiles, backgrounds and shareholdings of the directors, including the remuneration paid them, are disclosed in the definitive information statement of the Company made available prior to annual stockholders' meetings as well as in the SEC Form 17-A and the Annual Corporate Governance Report of the Company. All these reports can be accessed in the company website.

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

### Meetings and Seminars Attended

In 2017, the Board of Directors had six (6) meetings held on February 10, March 14, May 8, May 16, August 8 and November 10. Thirteen directors attended all the board meetings held in 2017, with the remaining two (2) directors attending at least 83% of all the board meetings held in 2017.

The schedule of the meetings for any given year is presented to the directors the year before. The Board of Directors was advised of the schedule of the board meetings for 2017 at the board meeting held on November 10, 2017. Should any matter requiring immediate approval by the Board of Directors arise, such matters are reviewed, considered and approved at meetings of the Executive Committee, subject to the Company's by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company's by-laws.

In keeping abreast of the latest best practices in corporate governance and complying with applicable legal requirements, including SEC Memorandum Circular No. 20 (Series of 2013), all the directors of the Company attended a corporate governance seminar in 2017 conducted by providers duly accredited by the SEC.

The attendance of the directors at the meetings and corporate governance seminar held in 2017 is set out below:

Director's Name	February 10 Special Board Meeting	March 14 Regular Board Meeting	May 8 Regular Board Meeting	May 16 Annual Stockholders' Meeting	May 16 Organizational Meeting	August 8 Regular Board Meeting	November 10 Regular Board Meeting	Attendance at a Corporate Governance Seminar in 2017
Eduardo M. Cojuangco, Jr.	✓	✓	✓	☐	✓	✓	✓	Yes
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	Yes
Estelito P. Mendoza	✓	✓	✓	✓	✓	✓	✓	Yes
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	Yes
Eric O. Recto	✓	✓	✓	✓	✓	✓	✓	Yes
Jose P. De Jesus	✓	✓	✓	✓	✓	✓	☐	Yes
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	Yes
Mirzan Mahathir	✓	☐	✓	✓	✓	✓	✓	Yes
Romela M. Bengzon	✓	✓	✓	✓	✓	✓	✓	Yes
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	Yes
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	Yes
Nelly Favis-Villafuerte	✓	✓	✓	✓	✓	✓	✓	Yes
Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	Yes
Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	Yes
Margarito B. Teves	✓	✓	✓	✓	✓	✓	✓	Yes

Legend: ✓ Present ☐ Absent

#### Independent Directors (4.3)

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

The Company Corporate Governance Manual defines an independent director as "a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation, which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director."

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

#### The Chairperson; the President and Chief Executive Officer (4.2)

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

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

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

Under the Company's by-laws, the Chairperson presides at all board and stockholders' meetings. Under the Company Corporate Governance Manual, the Chairperson is responsible for matters such as the following: (a) ensuring that the meetings of the Board of Directors are held in accordance with the Company's by-laws or as the Chairperson may deem necessary; (b) supervising the preparation of the agenda of the meeting; and (c) facilitating discussions on key issues.

#### Board Committees

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

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

#### Executive Committee

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

In 2017, the Executive Committee was chaired by Mr. Eduardo M. Cojuangco, Jr., with Messrs. Ramon S. Ang and Lubin B. Nepomuceno as members. Ms. Aurora T. Calderon and Atty. Virgilio S. Jacinto acted as alternate members of the Executive Committee.

The Executive Committee held six (6) meetings in 2017, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

Members	February 27	June 1	September 21	October 24	December 19	December 26
Eduardo M. Cojuangco, Jr.	✓	✓	✓	✓	✓	✓
Ramon S. Ang	✓	✓	✓	✓	✓	-
Lubin B. Nepomuceno		✓	✓	✓	✓	-
Aurora T. Calderon (Alternate Member)	N/A	N/A	N/A	N/A	N/A	✓
Virgilio S. Jacinto (Alternate Member)	N/A	N/A	N/A	N/A	N/A	✓

Legend: ✓ - Present

### Audit Committee

The Audit Committee is composed of at least three (3) appropriately qualified non-executive directors, majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or of any other board committee. The members of the Audit Committee are required to have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

The Audit Committee is responsible for overseeing the senior Management in establishing and maintaining an adequate, effective and efficient internal control framework. The Audit Committee 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.

Among its functions set out in the Corporate Governance Manual and the Audit Committee Charter, the Audit Committee primarily recommends to the Board each year the appointment of the external auditor to examine the accounts of the Company for that year and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.

The Audit Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company and a certified public accountant, and its present members are Independent Directors former Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves, Atty. Estelito P. Mendoza, and Ms. Aurora T. Calderon. Mr. Ferdinand K. Constantino acts as advisor to the committee.

In 2017, the Audit Committee held four (4) meetings on March 14, May 8, August 8 and November 10, with attendance as indicated below.

#### Committee membership until May 8, 2018

Members	March 14	May 8
Reynaldo G. David (Chairperson)	✓	✓
Lubin B. Nepomuceno	✓	✓
Estelito P. Mendoza	✓	✓
Artemio V. Panganiban	✓	✓
Aurora T. Calderon	✓	✓

Legend: ✓ - Present    □ - Absent

#### Committee membership after May 8, 2018

Members	August 8	November 10
Reynaldo G. David (Chairperson)	✓	✓
Artemio V. Panganiban	✓	✓
Margarito B. Teves	✓	✓
Estelito P. Mendoza	✓	✓
Aurora T. Calderon	✓	✓

Legend: ✓ - Present    □ - Absent

### Governance Committee

The Corporate Governance Committee, created on May 8, 2017, is composed of at least three (3) independent directors as members. The Chairperson of the committee is an independent director.

The Corporate Governance Committee is tasked to assist the Board of Directors in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices.

The Corporate Governance Committee is chaired by Independent Director Mr. Margarito B. Teves, with Independent Directors former Chief Justice Artemio V. Panganiban and Mr. Reynaldo G. David, Atty. Estelito P. Mendoza and Atty. Virgilio S. Jacinto as members.

In 2017, the Corporate Governance Committee held one meeting on May 8, 2017 with all the members in attendance.

### Risk Oversight Committee

The Risk Oversight Committee, created on May 8, 2017, is composed of at least three (3) members, the majority of whom are independent directors. The Chairperson is an independent director and is not the Chairperson of the Board of Directors or any other board committee. At least one member of the committee has relevant thorough knowledge and experience on risk and risk management.

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

The Risk Oversight Committee is chaired by Independent Director former Chief Justice Artemio V. Panganiban, with independent director Mr. Reynaldo G. David, and Ms. Aurora T. Calderon as members.

### Related Party Transaction Committee

The Related Party Transaction Committee, created on May 8, 2017, is composed of least three (3) non-executive directors, two (2) of whom are independent directors. The Chairperson is an independent director.

The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Company.

The Related Party Transaction Committee is chaired by Independent Director Mr. Margarito B. Teves, with Independent Director Mr. Reynaldo G. David, and Ms. Aurora T. Calderon as members.

### Annual Assessment of Board, Committee and Individual Directors Performance

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

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

### External Audit

R.G. Manabat & Co./KPMG ("KPMG") was the independent auditor of the Company for year 2017. KPMG was first appointed in 2010 and re-appointed yearly upon the endorsement by the Audit Committee and recommendation by the Board of Directors.

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

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

As in the previous years, representatives of KPMG attended the annual stockholders' meeting held on May 16, 2017.

### Internal Audit

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

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

The IAD provides the Board of Directors, Management, and shareholders with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate, and complied with.

The IAD is guided by the International Standards on Professional Practice of Internal Auditing. The IAD Head, in order to achieve the necessary independence to fulfill his responsibilities, directly reports functionally to the Audit Committee and administratively to the President.

The Company Corporate Governance Manual requires the head of the IAD to submit to the Audit Committee and the Management an annual report on IAD's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee, and which shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board of Directors and Management.

### Disclosure System

The Company Corporate Governance Manual recognizes that the essence of corporate governance is transparency. The Company has established corporate disclosure policies and procedures that (a) are practical and in accordance with best practices and regulatory expectations and (b) will ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of the financial condition, results and business operations of the Company.

All material information about the Company which could adversely affect its viability or the interest of its stockholders and other stakeholders (such as earnings results, acquisition or disposal of significant assets, board changes, related party transactions, shareholdings of directors and changes to ownership) are fully, fairly, accurately and timely disclosed to the public.

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

### Stakeholder Relations (4.16)

The Company maintains open and easy communication with its stakeholders, including for purposes of providing redress for any concern relating their rights, through stakeholder engagement touchpoints in the Company such as the Investor Relations Office, the Office of the Corporate Secretary and its customer care, corporate communications group and stock transfer agent.

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

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

## [Code of Conduct and Ethical Business Policy;](#) [Whistle-blowing and Non-Retaliation Policy; Policy on Securities Dealing](#)

### **Code of Conduct and Ethical Business Policy**

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

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

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

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

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

### **Conflict of Interest**

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

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

### **Anti-Corruption**

The Company Corporate Governance Manual embodies the company policy against corrupt practices.

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

## [Whistle-blowing and Non-Retaliation Policy](#)

For the past years, the Company observed the San Miguel Corporation and Subsidiaries Whistle-blowing Policy for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the Petron Corporation and Subsidiaries Whistle-blowing Policy.

The Petron Corporation and Subsidiaries Whistle-blowing Policy provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries.

The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

## [Policy on Securities Dealing](#)

Under the Petron Corporation Policy on Dealings in Securities, the directors, officers and employees of the Company are required to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code ("SRC").

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

Under the Company Corporate Governance Manual, the directors and officers are obliged to report to the OGCCS any dealings in securities of the Company within three (3) business days after such dealings.

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

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

# Financial Highlights

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

	2017	2016	2015
Net Sales	<b>434,624</b>	343,840	360,178
Gross Profit	<b>42,655</b>	37,715	31,444
Operating Income	<b>27,638</b>	23,797	18,134
Net Income	<b>14,087</b>	10,822	6,270
EBITDA	<b>38,343</b>	32,189	22,325
Property, Plant and Equipment	<b>177,690</b>	176,604	161,597
Total Assets	<b>338,030</b>	318,893	294,267
Total Equity	<b>99,619</b>	88,820	83,100
Net Debt	<b>154,274</b>	152,886	153,020
Earnings per share	<b>0.86</b>	0.60	0.15
Sales Volume (in thousands barrels)	<b>107,760</b>	105,702	99,053
Return on Sales	<b>3.2%</b>	3.1%	1.7%
Return on Assets	<b>4.3%</b>	3.5%	1.8%
Return on Equity	<b>15.0%</b>	12.6%	6.4%

## Unparalleled Financial Performance

2017 proved to be another banner year for Petron Corporation as consolidated net income reached a record high of P14.09 billion, 30% or P3.27 billion better than the P10.82 billion earnings reported in 2016. The impressive results were driven by the Company's deliberate focus to more profitable segments, sale of higher margin fuels and petrochemical products coming from production and sustained volumes from its Philippines and Malaysian operations.

Consolidated sales volume soared to 107.8 million barrels from previous year's 105.7 million barrels as the company delivered its commitment to expand its retail business both in the Philippines and Malaysia. Moreover, as it focused in more high-value market segments, sale of gasoline, jet A-1 and lubricants grew double digits during the year.

Despite the escalation in global oil prices with benchmark crude Dubai average up by 29% (US\$53.17/barrel - 2017 vs. US\$41.27/barrel - 2016) and scheduled maintenance turnarounds both in Bataan and Port Dickson refineries, margins improved by 13% year-on-year. This was on account of higher refining cracks coupled by lower power cost with the acquisition of the Refinery Solid Fuel-Fired Power Plant in December 2016.

Amid the 8% increase in Selling and Administrative Expenses primarily due to network expansion related expenses and rental of additional storage tanks, Operating Income went up 16%.

Net Income (in Millions)



Sales Volume (in millions barrels)



Gross Profit (in Millions)



Operating Income (in Millions)



## Liquid and Robust Financial Position

As of December 31, 2017, consolidated assets amounted to P338.03 billion, 6% or P19.14 billion more than December 2016 balance of P318.89 billion largely due to higher crude and finished product prices which resulted in the 28% or P12.46 billion rise in inventories and the 41% or P7.62 billion increase in trade receivables.

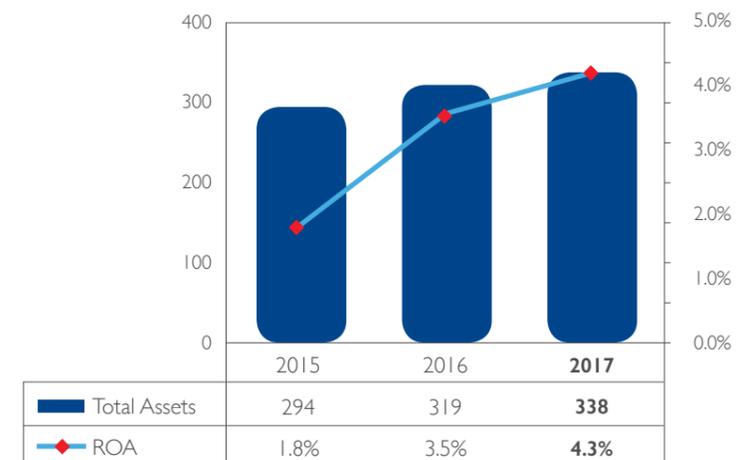
Meanwhile, total liabilities went up by 4% from P230.07 billion to P238.41 billion traced mainly to the 23% or P6.95 billion increase in liabilities for crude oil and petroleum products, also due to the escalation in prices.

Total equity moved up by 12% to P99.62 billion coming from the net income generated during the year after deducting dividends and distributions.

Overall, Petron's return on assets and equity reached 4.3% and 15.0%, respectively, while current ratio improved to 1.2X.

Total Assets and ROA

in Billions



## Adequate Cash from Operations

In Million Pesos	2017	2016	2015
Beginning Cash Balance	<b>17,332</b>	18,881	90,602
Operating Inflows	<b>15,753</b>	29,269	8,468
Investing Outflows	<b>(11,211)</b>	(19,165)	(14,592)
Financing Outflows	<b>(4,715)</b>	(12,025)	(66,343)
Effects of Exchange Rate Changes	<b>(145)</b>	372	746
Ending Cash Balance	<b>17,014</b>	17,332	18,881

During the year, internally generated cash from operations amounted to P15.75 billion after considering the increase in working capital requirements and settlement of interests and taxes. Available cash was used to pay dividends and distributions to stakeholders and to finance the Company's various capital projects in the Refinery, terminals and service stations.

Ending cash balance of P17.0 billion was slightly lower than previous year.

# Audit Committee Report

The Board of Directors  
Petron Corporation

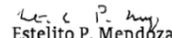
The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal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

In the performance of our responsibilities, we report that in 2017:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the Company's independent auditors for 2017;
- We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Asst. Vice President the annual internal audit plan, approved the same, and satisfied ourselves on the independence of the internal audit function; and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

The Board Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2017.

  
Reynaldo G. David  
Chairperson  
Independent Director

  
Estelito P. Mendoza  
Director

  
Artemio V. Panganiban  
Independent Director

  
Aurora T. Calderon  
Director

  
Margarito B. Teves  
Director

# Financial Statements

Statement of Management's Responsibility for Financial Statements  
Report of Independent Auditors  
Consolidated Statements of Financial Position  
Consolidated Statements of Income  
Consolidated Statements of Comprehensive Income  
Consolidated Statements of Changes in Equity  
Consolidated Statements of Cash Flows  
Notes to the Consolidated Financial Statements



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR CONSOLIDATED FINANCIAL STATEMENTS**

The management of **Petron Corporation (the "Company") and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended **December 31, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**EDUARDO M. COJUANGCO, JR.**  
Chairman

**RAMON S. ANG**  
President and Chief Executive Officer

**EMMANUEL E. ERAÑA**  
Senior Vice President and Chief Finance Officer

Signed this 13th day of March 2018

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



**SUBSCRIBED AND SWORN TO** before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 21 2018, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Name	Competent Evidence of Identity	Date/Place of Issue
Eduardo M. Cojuangco, Jr.	Passport No. EC3542719	27 Feb 2015/ DFA Manila
Ramon S. Ang	Passport No. EC3542718	27 Feb 2015/ DFA Manila
Emmanuel E. Eraña	Passport No. EC2176330	23 Sep 2014/ DFA NCR Central

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Page No. 82 ;  
Book No. I ;  
Series of 2018

**DGN-VIC R. QUEZON**  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City  
Appointment No. 0382-18  
Until December 31, 2019  
Attorney's Roll No. 56728  
PTR No.3388759/01-03-18/Mandaluyong  
Lifetime IBP No. 08324  
MCLE Compliance No.V-0020700/4-20-2016

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## Report of Independent Auditors

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

### *Opinion*

We have audited the consolidated financial statements of Petron Corporation and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

### *Key Audit Matters*

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

#### *Revenue Recognition (P434,624 million)*

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

#### *The risk*

Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Group have been transferred. Revenue generated from the sale of petroleum products is susceptible to manipulation as the pricing may vary in response to different market conditions. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and sales target which form part of the Group's key performance measure may provide opportunities and pressure to improperly recognize revenue.

#### *Our response*

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

- We tested operating effectiveness of the key controls over revenue recognition. We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts, including any unusual or irregular items.
- We tested credit notes recorded after the financial year to identify potential reversals of revenue inappropriately recognized in the current financial year.

*Valuation of Inventories (P56,604 million)*

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

*The risk*

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

*Our response*

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

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

*Valuation of goodwill (P8,277 million)*

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

*The risk*

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

*Our response*

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

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

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

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

PTR No. 6615157MD

Issued January 3, 2018 at Makati City

March 13, 2018  
Makati City, Metro Manila

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

		December 31	
	Note	2017	2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 34, 35	P17,014	P17,332
Financial assets at fair value through profit or loss	6, 34, 35	336	221
Available-for-sale financial assets	7, 34, 35	199	71
Trade and other receivables - net	4, 8, 28, 34, 35	38,159	31,548
Inventories	4, 9	56,604	44,147
Other current assets	10, 14, 28	33,178	32,499
<b>Total Current Assets</b>		<b>145,490</b>	125,818
<b>Noncurrent Assets</b>			
Available-for-sale financial assets	7, 34, 35	332	408
Property, plant and equipment - net	4, 11, 37	177,690	176,604
Investment in shares of stock of an associate	4, 10	-	1,883
Investment property - net	4, 12	75	91
Deferred tax assets - net	4, 27	207	194
Goodwill - net	4, 13	8,277	7,480
Other noncurrent assets - net	4, 14, 34, 35	5,959	6,415
<b>Total Noncurrent Assets</b>		<b>192,540</b>	193,075
		<b>P338,030</b>	P318,893

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>			
Short-term loans	15, 33, 34, 35	P69,583	P90,366
Liabilities for crude oil and petroleum products	16, 28, 31, 34, 35	36,920	29,966
Trade and other payables	17, 28, 30, 34, 35, 39	11,604	16,161
Derivative liabilities	34, 35	1,791	778
Income tax payable		808	626
Current portion of long-term debt - net	18, 33, 34, 35	3,789	20,911
<b>Total Current Liabilities</b>		<b>124,495</b>	158,808
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	18, 33, 34, 35	97,916	58,941
Retirement benefits liability	30	4,885	3,315
Deferred tax liabilities - net	27	7,397	5,726
Asset retirement obligation	4, 19	2,681	2,324
Other noncurrent liabilities	20, 34, 35	1,037	959
<b>Total Noncurrent Liabilities</b>		<b>113,916</b>	71,265
<b>Total Liabilities</b>		<b>238,411</b>	230,073

Forward

		December 31	
	Note	2017	2016
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock	21	P9,485	P9,485
Additional paid-in capital		19,653	19,653
Undated subordinated capital securities		30,546	30,546
Retained earnings		49,142	42,011
Equity reserves		(5,171)	(7,204)
Treasury stock		(10,000)	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>93,655</b>	84,491
<b>Non-controlling Interests</b>	13	<b>5,964</b>	4,329
<b>Total Equity</b>		<b>99,619</b>	88,820
		<b>P338,030</b>	P318,893

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos, Except Per Share Data)

	<i>Note</i>	2017	2016	2015
<b>SALES</b>	28, 31, 37	<b>P434,624</b>	P343,840	P360,178
<b>COST OF GOODS SOLD</b>	22	<b>391,969</b>	306,125	328,734
<b>GROSS PROFIT</b>		<b>42,655</b>	37,715	31,444
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>	23	<b>(15,017)</b>	(13,918)	(13,310)
<b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>	26, 37	<b>(8,487)</b>	(7,557)	(5,533)
<b>INTEREST INCOME</b>	26, 37	<b>535</b>	507	686
<b>SHARE IN NET INCOME OF AN ASSOCIATE</b>	10	<b>63</b>	66	133
<b>OTHER EXPENSES - Net</b>	26	<b>(907)</b>	(2,435)	(3,495)
		<b>(23,813)</b>	(23,337)	(21,519)
<b>INCOME BEFORE INCOME TAX</b>		<b>18,842</b>	14,378	9,925
<b>INCOME TAX EXPENSE</b>	27, 36, 37	<b>4,755</b>	3,556	3,655
<b>NET INCOME</b>		<b>P14,087</b>	P10,822	P6,270
<b>Attributable to:</b>				
Equity holders of the Parent Company	32	<b>P12,739</b>	P10,100	P5,618
Non-controlling interests		<b>1,348</b>	722	652
		<b>P14,087</b>	P10,822	P6,270
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	32	<b>P0.86</b>	P0.60	P0.15

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	<i>Note</i>	2017	2016	2015
<b>NET INCOME</b>		<b>P14,087</b>	P10,822	P6,270
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items that will not be reclassified to profit or loss</i>				
Equity reserve for retirement plan	30	<b>(1,142)</b>	2,647	(3,112)
Share in other comprehensive income (loss) of an associate and a joint venture	10	<b>3</b>	3	(6)
Income tax benefit (expense)		<b>346</b>	(794)	935
		<b>(793)</b>	1,856	(2,183)
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations		<b>3,303</b>	523	(3,748)
Unrealized fair value losses on available-for-sale financial assets	7	<b>(4)</b>	(2)	(1)
Share in other comprehensive loss of a joint venture		<b>(1)</b>	-	-
Income tax benefit		<b>1</b>	1	-
		<b>3,299</b>	522	(3,749)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>2,506</b>	2,378	(5,932)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR - Net of tax</b>		<b>P16,593</b>	P13,200	P338
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P14,772</b>	P12,742	P390
Non-controlling interests		<b>1,821</b>	458	(52)
		<b>P16,593</b>	P13,200	P338

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Undated	Retained Earnings			Equity Reserves		Non-controlling Interests	Total Equity
Note					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	
<b>As of January 1, 2017</b>	P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820
Unrealized fair value loss on available-for-sale financial assets - net of tax	-	-	-	-	-	-	(3)	-	(3)	-	(3)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	2,838	-	2,838	465	3,303
Equity reserve for retirement plan - net of tax	-	-	-	-	-	(804)	-	-	(804)	8	(796)
Share in other comprehensive income (loss) of an associate and a joint venture	-	-	-	-	-	3	(1)	-	2	-	2
Other comprehensive income (loss)	-	-	-	-	12,739	(801)	2,834	-	2,033	473	2,506
Net income for the year	-	-	-	-	12,739	-	-	-	12,739	1,348	14,087
Total comprehensive income (loss) for the year	-	-	-	-	12,739	(801)	2,834	-	14,772	1,821	16,593
Cash dividends	21	-	-	-	(1,584)	-	-	-	(1,584)	(186)	(1,770)
Distributions paid	21	-	-	-	(4,024)	-	-	-	(4,024)	-	(4,024)
Transactions with owners	-	-	-	-	(5,608)	-	-	-	(5,608)	(186)	(5,794)
<b>As of December 31, 2017</b>	<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P15,160</b>	<b>P33,982</b>	<b>(P2,146)</b>	<b>(P3,025)</b>	<b>(P10,000)</b>	<b>P93,655</b>	<b>P5,964</b>	<b>P99,619</b>

Forward

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

Forward

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

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
(Amounts in Million Pesos)

	Note	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P18,842</b>	P14,378	P9,925
Adjustments for:				
Depreciation and amortization	25	<b>10,979</b>	9,505	6,272
Interest expense and other financing charges	26	<b>8,487</b>	7,557	5,533
Retirement benefits costs	30	<b>508</b>	579	419
Share in net income of an associate	10	<b>(63)</b>	(66)	(133)
Interest income	26	<b>(535)</b>	(507)	(686)
Unrealized foreign exchange losses (gains) - net		<b>(880)</b>	529	87
Other losses - net		<b>594</b>	538	304
Operating income before working capital changes		<b>37,932</b>	32,513	21,721
Changes in noncash assets, certain current liabilities and others	33	<b>(13,043)</b>	4,550	(5,484)
Cash generated from operations		<b>24,889</b>	37,063	16,237
Contribution to retirement fund	30	<b>(100)</b>	(135)	-
Interest paid		<b>(7,492)</b>	(7,014)	(8,020)
Income taxes paid		<b>(1,920)</b>	(902)	(513)
Interest received		<b>376</b>	257	764
Net cash flows provided by operating activities		<b>15,753</b>	29,269	8,468
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment	11	<b>(13,142)</b>	(19,122)	(13,474)
Proceeds from sale of property and equipment		<b>1,195</b>	336	106
Proceeds from sale of investment property		<b>16</b>	18	-
Increase in:				
Other receivables		<b>-</b>	-	(265)
Other noncurrent assets		<b>(969)</b>	(536)	(694)
Reductions from (additions to):				
Investment in shares of stock of an associate	10	<b>1,750</b>	-	(525)
Available-for-sale financial assets		<b>(61)</b>	139	260
Net cash flows used in investing activities		<b>(11,211)</b>	(19,165)	(14,592)

Forward

**PETRON CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Million Pesos, Except Par Value, Number of Shares and  
Per Share Data, Exchange Rates and Commodity Volumes)

**1. Reporting Entity**

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the Parent Company's corporate term to December 22, 2066. The accompanying consolidated financial statements comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate and joint ventures.

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

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

With nearly 2,400 service stations and hundreds of industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and autoLPG to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

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

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. Today, Petron is one of the leading oil companies in Malaysia with an integrated business which includes an 88,000 barrel-per-day refinery, 10 terminals, 7 storage facilities and a network of more than 600 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2017, the Parent Company's public float stood at 23.84%.

	<i>Note</i>	2017	2016	2015
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availment of loans	33	<b>P298,669</b>	P226,360	P222,099
Payments of:				
Loans	33	<b>(298,199)</b>	(230,924)	(256,732)
Cash dividends and distributions	21, 33	<b>(5,773)</b>	(5,537)	(5,517)
Purchase of non-controlling interest in a subsidiary	13	-	(1,921)	-
Redemption of preferred shares	13, 21	-	-	(25,642)
Increase (decrease) in other noncurrent liabilities		<b>588</b>	(3)	(551)
Net cash flows used in financing activities		<b>(4,715)</b>	(12,025)	(66,343)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(145)</b>	372	746
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>				
		<b>(318)</b>	(1,549)	(71,721)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		<b>17,332</b>	18,881	90,602
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	5	<b>P17,014</b>	P17,332	P18,881

*See Notes to the Consolidated Financial Statements.*

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

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

## 2. Basis of Preparation

### Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 13, 2018.

### Basis of Measurement

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

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

### Functional and Presentation Currency

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

### Basis of Consolidation

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

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2017	2016	
Overseas Ventures Insurance Corporation Ltd. (Ovincor)	100.00	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	100.00	100.00	Philippines
Petron Freeport Corporation (PFC)	100.00	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	100.00	100.00	Singapore
Petron Marketing Corporation (PMC)	100.00	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	40.00	40.00	Philippines
Limay Energen Corporation (LEC)	100.00	100.00	Philippines
Petron Global Limited (PGL)	100.00	100.00	British Virgin Islands
Petron Finance (Labuan) Limited (PFL)	100.00	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. (POGM) and Subsidiaries	100.00	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	100.00	100.00 <sup>(a)</sup>	Hong Kong

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

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

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

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

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

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

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

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

As of December 31, 2017 and 2016, POGI owns 73.4% of Petron Malaysia Refining & Marketing Bhd (PMRMB) and 100% of both Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), collectively hereinafter referred to as "Petron Malaysia".

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

PFL is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a holding company incorporated in Hong Kong in March 2008.

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

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

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

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

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

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2017 and 2016.

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

### 3. Significant Accounting Policies

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

#### Adoption of Amendments to Standards

The Group has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have significant impact on the Group's consolidated financial statements.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.
- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities* on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

#### Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

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

*To be Adopted 2018*

- 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 new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect any impact on its consolidated statement of financial position except for the possible effect of applying the expected credit loss model in measuring impairment.

- *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.

The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the 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 management of the Group is still finalizing the impact of PFRS 15 on the Group's revenue recognition. However, the Group does not expect significant impact on its consolidated financial position and consolidated net income.

- *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.

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

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

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

- 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.

The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

#### To be Adopted 2019

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

The 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.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and non-current classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within twelve months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within twelve months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

#### Financial Assets and Financial Liabilities

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

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

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

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

#### Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

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

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

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

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

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

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

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

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

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

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

The Group has no investments accounted for under this category as of December 31, 2017 and 2016.

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

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

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

#### Financial Liabilities

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

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

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

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

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

#### Debt Issue Costs

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

#### Derivative Financial Instruments

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

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group has no derivatives that qualify for hedge accounting as of December 31, 2017 and 2016. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

#### Classification of Financial Instruments between Liability and Equity

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

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

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

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

#### Offsetting Financial Instruments

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

#### Fair Value Measurements

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

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

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

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

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

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

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

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

#### Inventories

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

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

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

#### Business Combination

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

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

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

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

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

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

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

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

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

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

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

#### Transactions under Common Control

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

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

#### Non-controlling Interests

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

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

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

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

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

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

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

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

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

#### Interest in Joint Ventures

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

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other expenses" account. As of December 31, 2017, the Group has capital commitments amounting to P4 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

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

#### Property, Plant and Equipment

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

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

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

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

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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

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

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

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

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

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

### Investment Property

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

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

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

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

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

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

### Intangible Assets

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

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

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

	Number of Years
Software	5 - 10
Franchise fee	3 - 10
Other intangibles	10 - 16

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

As of December 31, 2017 and 2016, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

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

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

### Asset Held for Sale

The Group classifies noncurrent assets as held for sale, if their carrying amounts will be recovered primarily through sale rather than through continuing use. The assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes will be made or that the decision on sale will be withdrawn. Management must be committed to the sale within one year from date of classification.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

Assets held for sale are presented under "Other current assets" account in the consolidated statements of financial position.

#### Impairment of Nonfinancial Assets

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

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

#### Cylinder Deposits

The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 90% of the acquisition cost of the cylinders.

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

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

#### Provisions

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

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

#### Capital Stock

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

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

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

#### Additional Paid-in Capital

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

#### Treasury Stock

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

#### Undated Subordinated Capital Securities (USCS)

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

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

#### Retained Earnings

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

#### Revenue Recognition

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

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

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

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

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

*Customer Loyalty Program.* Revenue is allocated between the customer loyalty program and the other component of the sale. The amount allocated to the customer loyalty program is deducted from revenue at the time points are awarded to the customer. A deferred liability account is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

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

#### Cost and Expense Recognition

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

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

#### Leases

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

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

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

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

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

#### Borrowing Costs

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

#### Research and Development Costs

Research costs are expensed as incurred. Product development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### Employee Benefits

*Short-term Employee Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits Costs and Other Employee Benefit Costs.* Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Some of its subsidiaries have separate unfunded, noncontributory, retirement plans.

The Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in other comprehensive income under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Equity reserves" and are not reclassified to profit or loss in subsequent periods. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

The Group also provides other benefits to its employees as follows:

*Corporate Performance Incentive Program.* The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

*Savings Plan.* The Group established a Savings Plan wherein eligible employees may apply for membership and have the option to contribute 5% to 15% of their monthly base pay. The Group, in turn, contributes an amount equivalent to 50% of the employee-member's contribution. However, the Group's 50% share applies only to a maximum of 10% of the employee-member's contribution. The Savings Plan aims to supplement benefits upon employees' retirement and to encourage employee-members to save a portion of their earnings. The Group accounts for this benefit as a defined contribution pension plan and recognizes a liability and an expense for this plan as the expenses for its contribution fall due. The Group has no legal or constructive obligations to pay further contributions after payments of the equivalent employer-share. The accumulated savings of the employees plus the Group's share, including earnings, will be paid in the event of the employee's: (a) retirement, (b) resignation after completing at least five years of continuous services, (c) death, or (d) involuntary separation not for cause.

*Land/Home Ownership Plan.* The Group established the Land/Home Ownership Plan, an integral part of the Savings Plan, to extend a one-time financial assistance to Savings Plan members in securing housing loans for residential purposes.

#### Foreign Currency

*Foreign Currency Translations.* Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Nonmonetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

*Foreign Operations.* The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income, and presented in the "Other reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and presented in the "Other reserves" account in the consolidated statements of changes in equity.

#### Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

*Deferred Tax.* Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Trade and other payables" accounts in the consolidated statements of financial position.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

#### Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to owners of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive debt or equity instruments.

#### Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 37 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

### **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Determining Functional Currency.* The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates. It is the currency that mainly influences the sales price of goods and services and the costs of providing these goods and services.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,243, P1,139 and P1,131 in 2017, 2016 and 2015, respectively (Notes 23 and 26).

Rent expense recognized in the consolidated statements of income amounted to P1,702, P1,293 and P1,295 in 2017, 2016 and 2015, respectively (Notes 22 and 23).

*Evaluating Control over its Investees.* Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, before the Parent Company acquired the remaining equity interest in PAHL in 2016, management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Parent Company has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Parent Company controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Parent Company assessed it has control over PAHL, even prior to the Parent Company's acquisition of the remaining equity interest in 2016, by virtue of the extent of the Parent Company's participation in the BOD and management of PAHL, of which the Parent Company established it has: (i) power over PAHL, (ii) it is exposed and has rights to variable returns from its involvement with PAHL, and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Parent Company considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2017 and 2016, the Parent Company owns 100% of PAHL.

*Classifying Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Distinction between Property, Plant and Equipment and Investment Property.* The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determining Impairment Indicators of Other Non-financial Assets.* PFRS requires that an impairment review be performed on property, plant and equipment, investment in shares of stock of an associate and interest in joint ventures, investment property and intangible assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

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

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

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

*Taxes.* Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2017, 2016 and 2015, the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as Las Lucas Construction and Development Corporation (Las Lucas) and Parkville Estates and Development Corporation (PEDC), as they opted to apply OSD. In 2017, certain subsidiaries of NVRC such as Mariveles Landco Corporation, South Luzon Prime Holdings, Inc. and MRGVeloso Holdings, Inc. (MHI) also opted to apply OSD (Note 27).

*Contingencies.* The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Allowance for Impairment Losses on Trade and Other Receivables.* Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the National Sales Division, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances including but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Impairment losses on trade and other receivables amounted to P10, P68 and P154 in 2017, 2016 and 2015, respectively (Notes 8 and 23). Receivables written-off amounted to P89 in 2017 and P97 in 2016 (Note 8).

The carrying amount of receivables amounted to P38,159 and P31,548 as of December 31, 2017 and 2016, respectively (Note 8).

*Net Realizable Values of Inventories.* In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P56,604 and P44,147 as of the end of 2017 and 2016, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

No inventory write-down was recognized by the Group in 2017 and 2016 while inventory write-down in 2015 amounted to P225 (Note 9).

*Allowance for Inventory Obsolescence.* The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

In 2017, 2016 and 2015, the Group provided an additional loss on inventory obsolescence amounting to nil, P327 and P36, respectively (Note 9).

*Fair Values of Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (e.g., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property.* The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P85,204 and P75,258 as of December 31, 2017 and 2016, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P177,690 and P176,604 as of December 31, 2017 and 2016, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P75 and P91 as of December 31, 2017 and 2016, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P162 and P208 as of December 31, 2017 and 2016, respectively (Note 14).

*Fair Value of Investment Property.* The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment property amounted to P162 and P151 as of December 31, 2017 and 2016, respectively (Note 12).

*Impairment of Goodwill.* The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on fair value less costs to sell and value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2017 and 2016 and discount rates of 6.3% and 5.8% in 2017 and 2016, respectively (Note 13).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the projected sales volume, selling price and improvement in the gross profit margin, and discount rate.

No impairment losses were recognized in 2017, 2016 and 2015 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2017 and 2016.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Notes 13 and 26).

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P207 and P194 as of December 31, 2017 and 2016, respectively (Note 27).

*Present Value of Defined Benefit Retirement Obligation.* The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement benefits liability.

Other key assumptions for retirement benefits liability are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

Retirement benefits costs recognized in profit or loss amounted to P508, P579 and P419 in 2017, 2016 and 2015, respectively. Remeasurement losses (gains) of the net defined retirement obligation recognized in other comprehensive income amounted to P1,142, (P2,647) and P3,112 in 2017, 2016 and 2015, respectively. The retirement benefits liability amounted to P4,989 and P3,392 as of December 31, 2017 and 2016, respectively (Note 30).

*Asset Retirement Obligation (ARO).* The Group has ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.659% to 9.055% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,681 and P2,324 as of December 31, 2017 and 2016, respectively (Note 19).

## 5. Cash and Cash Equivalents

This account consists of:

	Note	2017	2016
Cash on hand		P2,701	P1,794
Cash in banks		4,106	5,423
Short-term placements		10,207	10,115
	34, 35	P17,014	P17,332

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn annual interest at the respective short-term placement rates ranging from 0.05% to 4.50% in 2017, 0.03% to 4.50% in 2016 and 0.05% to 5.00% in 2015 (Note 26).

## 6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

	Note	2017	2016
Proprietary membership shares	34, 35	P171	P157
Derivative assets	34, 35	165	64
		P336	P221

The fair values presented have been determined directly by reference to published market prices, except for derivative assets which are based on inputs other than quoted prices that are observable (Note 35).

Changes in fair value recognized in 2017, 2016 and 2015 amounted to P14, P10 and P11, respectively (Note 26).

## 7. Available-for-Sale Financial Assets

This account consists of:

	<b>Note</b>	<b>2017</b>	2016
Government securities		<b>P201</b>	P141
Other debt securities		<b>330</b>	338
	34, 35	<b>531</b>	479
Less current portion		<b>199</b>	71
		<b>P332</b>	P408

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 2.13% to 5.30% in 2017, 2.13% to 7.75% in 2016 and 4.47% to 8.88% in 2015 (Note 26).

Ovincor's outstanding corporate bond is maintained at the Bank of N. T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 26).

The breakdown of investments by contractual maturity dates as of December 31 follows:

	<b>Note</b>	<b>2017</b>	2016
Due in one year or less		<b>P199</b>	P71
Due after one year through six years		<b>332</b>	408
	34, 35	<b>P531</b>	P479

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

	<b>2017</b>	2016
Balance at beginning of year	<b>P479</b>	P621
Additions	<b>131</b>	90
Disposals	<b>(70)</b>	(232)
Amortization of premium	<b>(5)</b>	(7)
Fair value loss	<b>(4)</b>	(2)
Currency translation adjustment	<b>-</b>	9
Balance at end of year	<b>P531</b>	P479

## 8. Trade and Other Receivables

This account consists of:

	<b>Note</b>	<b>2017</b>	2016
Trade	34	<b>P26,199</b>	P18,338
Related parties - trade	28, 34	<b>726</b>	1,001
Allowance for impairment loss on trade receivables		<b>(776)</b>	(807)
		<b>26,149</b>	18,532
Government		<b>6,151</b>	7,441
Related parties - non-trade	28	<b>5,273</b>	5,127
Others		<b>991</b>	787
Allowance for impairment loss on non-trade receivables		<b>(405)</b>	(339)
		<b>12,010</b>	13,016
	34, 35	<b>P38,159</b>	P31,548

Trade receivables are noninterest-bearing and are generally on a 45-day term. Penalties are charged when the account becomes overdue.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P767 and P1,954 as of December 31, 2017 and 2016, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of an advance made by the Parent Company to Petron Corporation Employee Retirement Plan (PCERP) and other receivables from SMC and its subsidiaries.

Others mainly consist of receivables from various non-trade customers and matured hedging transactions.

A reconciliation of the allowance for impairment losses at the beginning and end of 2017 and 2016 is shown below:

	<b>Note</b>	<b>2017</b>	2016
Balance at beginning of year		<b>P1,227</b>	P1,230
Additions	23	<b>10</b>	68
Write off	4	<b>(89)</b>	(97)
Currency translation adjustment		<b>123</b>	26
Balance at end of year		<b>1,271</b>	1,227
Less noncurrent portion for long-term receivables	14	<b>90</b>	81
		<b>P1,181</b>	P1,146

As of December 31, 2017 and 2016, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	Past Due but not Impaired				Total
	Within 30 days	31 to 60 Days	61 to 90 Days	Over 90 Days	
<b>December 31, 2017</b>					
Reseller	P95	P20	P7	P6	P128
Lubes	40	8	2	40	90
Gasul	67	26	20	-	113
Industrial	69	4	239	140	452
Others	17	27	29	90	163
	<b>P288</b>	<b>P85</b>	<b>P297</b>	<b>P276</b>	<b>P946</b>
<b>December 31, 2016</b>					
Reseller	P107	P8	P2	P10	P127
Lubes	1	-	6	-	7
Gasul	57	2	2	-	61
Industrial	15	9	95	263	382
Others	88	35	23	131	277
	<b>P268</b>	<b>P54</b>	<b>P128</b>	<b>P404</b>	<b>P854</b>

No allowance for impairment losses is necessary as regard to these past due but unimpaired trade receivables based on past collection experience. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

## 9. Inventories

This account consists of:

	2017	2016
Crude oil and others	P29,538	P24,474
Petroleum	20,359	13,418
Lubes, greases and aftermarket specialties	2,544	2,754
Materials and supplies	4,163	3,501
	<b>P56,604</b>	<b>P44,147</b>

The cost of these inventories amounted to P57,393 and P44,936 as of December 31, 2017 and 2016, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P61 and P1,906 as of December 31, 2017 and 2016, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P369,695, P283,169 and P311,526 in 2017, 2016 and 2015, respectively (Note 22).

Research and development costs on these products constituted the expenses incurred for internal projects in 2017 and 2016 (Note 23).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2017 and 2016 follow:

	Note	2017	2016
Balance at beginning of year		P789	P684
Loss on inventory obsolescence	4	-	327
Reversals		-	(223)
Currency translation adjustment		-	1
Balance at end of year		<b>P789</b>	<b>P789</b>

As of December 31, 2017 and 2016, there is no allowance for write-down of inventories to NRV recognized by the Group.

The losses and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to inventories sold during the year.

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

This account consists of:

	2017	2016
<b>Acquisition Cost</b>		
Balance at beginning of year	P1,405	P1,405
Disposal/reclassification	(1,405)	-
Balance at end of year	-	1,405
<b>Share in Total Comprehensive Income</b>		
Balance at beginning of year	478	409
Share in net income during the year	63	66
Share in other comprehensive income	3	3
Disposal/reclassification	(544)	-
Balance at end of year	-	478
	<b>P -</b>	<b>P1,883</b>

Investment in shares of stock of an associate pertains to 35% investment in Manila North Harbour Port Inc. (MNHPI), a company incorporated in the Philippines, prior to its disposal in October 2017.

On January 3, 2011, the Parent Company entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

Prior to the disposal of MNHPI shares in 2017, last transaction relative to the investment in MNHPI was the advances made by the Parent Company amounting to P525 as deposit for future subscription in February 2015. Following the approval of the increase in the authorized capital stock of MNHPI by the SEC, the Parent Company was issued stock certificate for 7,000,000 shares in December 2015, representing 35% of the increase in the authorized capital stock of MNHPI.

On September 21, 2017, the Parent Company signed the Share Purchase Agreement (SPA) with International Container Terminal Services, Inc. (ICTSI) for the sale by the Parent Company of its 10,449,000 shares in MNHPI equal to 34.83% of MNHPI's outstanding shares for a total consideration of P1,750. The completion of the SPA was subject to several conditions.

On October 30, 2017, all conditions for the completion of the sale of the Parent Company's shares in MNHPI had been complied with and accordingly, the purchase price had been paid. As a result of the transaction, the Group recognized loss on disposal of investments amounting to P189 included as part of "Other expenses - net" account in the 2017 consolidated statement of income (Note 26).

The remaining 51,000 shares representing 0.17% interest in MNHPI was also intended to be sold to a related party effectively rendering the remaining MNHPI shares as assets held for sale as of December 31, 2017. The proposed sale is still subject to negotiations as of December 31, 2017. Asset held for sale with carrying amount of P9 is recognized as part of "Other current assets" account in the consolidated statement of financial position as of December 31, 2017 (Note 14).

Following are the condensed financial information of MNHPI as of and for the periods ended September 30, 2017 and December 31, 2016:

	September 30 2017	December 31 2016
Percentage of ownership	<b>35%*</b>	35%
Current assets	<b>P2,098</b>	P2,698
Noncurrent assets	<b>12,765</b>	11,349
Current liabilities	<b>(6,236)</b>	(5,574)
Noncurrent liabilities	<b>(4,078)</b>	(4,102)
Net assets	<b>P4,549</b>	P4,371
Sales	<b>P2,504</b>	P2,984
Net income	<b>P179</b>	P188
Other comprehensive income	-	9
Total comprehensive income	<b>P179</b>	P197
Share in net assets	<b>P -</b>	P1,530
Goodwill	-	353
Carrying amount of investment in shares of stock of an associate	<b>P -</b>	P1,883

\*The remaining 0.17% equity interest in MNHPI as of December 31, 2017 was classified as "Asset held for sale" (Note 14).

## 11. Property, Plant and Equipment

The movements and balances as of and for the years ended December 31 follow:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
<b>Cost</b>							
January 1, 2016	P28,248	P49,785	P16,230	P4,703	P13,274	P116,585	P228,825
Additions	289	18,065	363	293	467	3,749	23,226
Disposals/reclassifications	34	94,310	(494)	(348)	186	(95,033)	(1,345)
Currency translation adjustment	332	103	73	4	77	18	607
December 31, 2016	28,903	162,263	16,172	4,652	14,004	25,319	251,313
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 adjustment	876	1,106	700	135	705	139	3,661
<b>December 31, 2017</b>	<b>32,504</b>	<b>185,304</b>	<b>17,436</b>	<b>4,951</b>	<b>14,631</b>	<b>7,429</b>	<b>262,255</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2016	17,425	33,088	11,140	3,448	2,127	-	67,228
Additions	1,255	5,010	1,192	655	134	-	8,246
Disposals/reclassifications	(85)	(20)	(369)	(477)	(61)	-	(1,012)
Currency translation adjustment	143	173	24	(97)	4	-	247
December 31, 2016	18,738	38,251	11,987	3,529	2,204	-	74,709
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
<b>December 31, 2017</b>	<b>20,205</b>	<b>46,296</b>	<b>12,207</b>	<b>3,797</b>	<b>2,060</b>	<b>-</b>	<b>84,565</b>
<b>Carrying Amount</b>							
December 31, 2016	P10,165	P124,012	P4,185	P1,123	P11,800	P25,319	P176,604
<b>December 31, 2017</b>	<b>P12,299</b>	<b>P139,008</b>	<b>P5,229</b>	<b>P1,154</b>	<b>P12,571</b>	<b>P7,429</b>	<b>P177,690</b>

No interest was capitalized in 2017 and 2016 (Note 18). No impairment loss was required to be recognized in 2017, 2016 and 2015 based on management's assessment of impairment indicators.

### Capital Commitments

As of December 31, 2017 and 2016, the Group has outstanding commitments to acquire property, plant and equipment amounting to P10,615 and P7,756, respectively.

## 12. Investment Property

The movements and balances as of and for the years ended December 31 follow:

	Land	Building	Total
<b>Cost</b>			
January 1, 2016	P100	P25	P125
Disposal	(20)	-	(20)
December 31, 2016	80	25	105
Disposal	(15)	-	(15)
<b>December 31, 2017</b>	<b>65</b>	<b>25</b>	<b>90</b>
<b>Accumulated Depreciation</b>			
January 1, 2016	-	13	13
Depreciation	-	1	1
December 31, 2016	-	14	14
Depreciation	-	1	1
<b>December 31, 2017</b>	<b>-</b>	<b>15</b>	<b>15</b>
<b>Carrying Amount</b>			
December 31, 2016	P80	P11	P91
<b>December 31, 2017</b>	<b>P65</b>	<b>P10</b>	<b>P75</b>

The Group's investment property pertains to a property located in Tagaytay and parcels of land in various locations.

Estimated fair value of the Tagaytay property amounted to P44 as of December 31, 2017 and 2016 based on the appraisal made in February 2017. The fair value was calculated using market approach.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2017 and 2016, the aggregate fair market values of the properties amounting to P118 and P107, respectively, determined by independent appraisers in 2018 and 2013, respectively, using market approach, is higher than their carrying amount, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

The fair market value of investment property has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

## 13. Investment in Shares of Stock of Subsidiaries and Goodwill

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

### a. PAHL

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of the remaining equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013.

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US\$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$27,644,540 which effectively increased the Parent Company's ownership interest from 47.25% to 50.26%.

On July 25, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

### b. PGL

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US\$)	Total (in US\$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US\$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2017 and 2016, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

c. *Las Lucas and MHI*

On December 19, 2017, the BOD and stockholders of the subsidiaries of NVRC, Las Lucas and MHI, approved the merger between Las Lucas and MHI effective (to the extent allowed by applicable law or regulation) on the first day of the month following the issuance by the SEC of the certificate of merger, wherein Las Lucas will be the surviving entity.

Upon the effective date of merger, all the respective rights, businesses, powers, privileges, immunities, franchises, assets and other properties of MHI including, but not limited to, all real and personal properties, contractual and property rights, licenses, privileges, property rights, claims, bank deposits, stocks, accounts receivable, retained earnings, credit lines, supplies, equipment, investments of whatever nature, including subscriptions to shares, choses in action, goodwill, intangible assets and such other assets, owned or which may have been acquired by MHI shall be conveyed, assigned, and transferred to, possessed and owned by, and vested in Las Lucas.

The Plan of Merger was submitted with the SEC in January 2018. The application for merger is still pending approval by the SEC as of March 13, 2018.

Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	<b>Note</b>	<b>2017</b>	2016
<b>Cost</b>			
Balance at beginning of year		<b>P7,480</b>	P7,694
Translation adjustments		<b>797</b>	84
Balance at end of year		<b>8,277</b>	7,778
Less impairment loss during the year	26	-	298
<b>Net carrying amount</b>		<b>P8,277</b>	P7,480

Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2017 and 2016, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

For the goodwill allocated to the POGI Group CGU, the recoverable amount of goodwill has been determined based on value in use (VIU). The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 3.0% in 2017 and 2016 and discount rates of 6.3% and 5.8% in 2017 and 2016, respectively. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (i.e., historical data). The discount rate is based on the weighted average cost of capital (WACC) using the Capital Asset Pricing Model (CAPM) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium.

The financial projection used in the VIU calculation is highly dependent on the following underlying key drivers of growth in profitability:

- *Sales Volume.* Majority of the sales volume is generated from the domestic market of the CGU. The growth in projected sales volume would mostly contributed from retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. Commercial sales refer to sales to industrial, wholesale, aviation and LPG accounts.
- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2018, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through overall growth in sales volume along with better sales mix and better cost management.

For purposes of growth rate sensitivity, a growth rate scenario of 2%, 3% and 4% is applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2017, 2016 and 2015 in relation to the goodwill arising from the acquisition of Petron Malaysia.

Impairment of Goodwill from PAHL

For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other expenses - net" in the 2016 consolidated statement of income (Note 26).

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2017		December 31, 2016	
	NVRC	PMRMB	NVRC	PMRMB
<b>Non-controlling Interests Percentage</b>	<b>60.00%</b>	<b>26.60%</b>	60.00%	26.60%
<b>Carrying amount of non-controlling interest</b>	<b>P558</b>	<b>P5,406</b>	P474	P3,855
Current assets	<b>P350</b>	<b>P19,595</b>	P308	P16,744
Noncurrent assets	<b>5,521</b>	<b>13,844</b>	5,296	12,601
Current liabilities	<b>(237)</b>	<b>(13,274)</b>	(205)	(13,946)
Noncurrent liabilities	<b>(4,229)</b>	<b>(1,599)</b>	(4,135)	(2,492)
<b>Net assets</b>	<b>P1,405</b>	<b>P18,566</b>	P1,264	P12,907
<b>Net income attributable to non-controlling interests</b>	<b>P84</b>	<b>P1,264</b>	P57	P725
<b>Other comprehensive income attributable to non-controlling interests</b>	<b>P -</b>	<b>P473</b>	P -	P28
<b>Sales</b>	<b>P584</b>	<b>P121,701</b>	P593	P87,124
Net income	<b>P141</b>	<b>P4,754</b>	P96	P2,727
Other comprehensive income	-	<b>28</b>	-	105
<b>Total comprehensive income</b>	<b>P141</b>	<b>P4,782</b>	P96	P2,832
Cash flows provided by operating activities	<b>P292</b>	<b>P4,271</b>	P222	P3,881
Cash flows used in investing activities	<b>(82)</b>	<b>(389)</b>	(429)	(525)
Cash flows provided by (used in) financing activities	<b>(213)</b>	<b>(4,519)</b>	128	(3,221)
Effects of exchange rate changes on cash and cash equivalents	-	<b>(2)</b>	-	2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(P3)</b>	<b>(P639)</b>	(P79)	P137

Net loss and other comprehensive income attributable to non-controlling interest of PAHL prior to the acquisition of the remaining equity interest in 2016 amounted to (P60) and P4, respectively, while other comprehensive loss attributable to non-controlling interest of PGL in 2016 amounted to P296.

#### 14. Other Assets

This account consists of:

	Note	2017	2016
Current:			
Prepaid taxes		<b>P19,025</b>	P24,478
Input VAT		<b>12,337</b>	6,097
Prepaid expenses	28	<b>1,383</b>	1,518
Special-purpose fund		<b>147</b>	140
Asset held for sale	10	<b>9</b>	-
Tax recoverable		<b>1</b>	-
Others		<b>276</b>	266
		<b>P33,178</b>	P32,499
Noncurrent:			
Prepaid rent		<b>P2,600</b>	P2,211
Input VAT		<b>1,832</b>	2,229
Catalyst - net		<b>503</b>	833
Long-term receivables - net	34, 35	<b>228</b>	205
Noncurrent deposits	34, 35	<b>90</b>	81
Others - net		<b>706</b>	856
		<b>P5,959</b>	P6,415

The "Others - net" under "Noncurrent" account includes software, marketing assistance to dealers, other prepayments, franchise fees, licenses and other intangible assets amounting to P693 and P850 as of December 31, 2017 and 2016, respectively, net of amortization amounting to P282 and P349 as of December 31, 2017 and 2016, respectively.

The amortization of prepaid rent amounted to P195, P207 and P189 in 2017, 2016 and 2015, respectively.

Amortization of software, marketing assistance to dealers, other prepayments, franchise fees, other intangibles and prepaid rent included as part of "Depreciation and amortization" under "Selling and administrative expenses" account in the consolidated statements of income amounted to P138, P214 and P285 in 2017, 2016 and 2015, respectively (Notes 23 and 25).

Amortization of catalyst, licenses and other prepayments included as part of "Depreciation and amortization" under "Cost of goods sold" account in the consolidated statements of income amounted to P684, P837 and P433 in 2017, 2016 and 2015, respectively (Notes 22 and 25).

#### 15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 4 to 120 days and annual interest ranging from 2.35% to 6.02% in 2017, 2.85% to 6.22% in 2016 and 2.75% to 6.20% in 2015 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P2,323 both in 2017 and 2016 and P3,284 in 2015 (Note 26).

## 16. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are noninterest-bearing and generally settled on a 30-day term. Details of the supply agreements in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

Liabilities for crude oil and petroleum products are payable to the following:

	Note	2017	2016
Third parties		<b>P36,895</b>	P29,563
Related parties	28	<b>25</b>	403
	34, 35	<b>P36,920</b>	P29,966

## 17. Trade and Other Payables

This account consists of:

	Note	2017	2016
Trade		<b>P5,540</b>	P4,545
Specific taxes and other taxes payable		<b>1,358</b>	2,352
Accrued payroll		<b>52</b>	119
Due to related parties	28	<b>774</b>	5,474
Accrued interest		<b>533</b>	713
Accrued rent		<b>817</b>	892
Dividends payable		<b>239</b>	218
Insurance liabilities		<b>78</b>	66
Retention payable		<b>641</b>	336
Deferred liability on customer loyalty program		<b>1,024</b>	750
Retirement benefits liability	30	<b>104</b>	77
Others	39	<b>444</b>	619
	34, 35	<b>P11,604</b>	P16,161

Trade payables are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are generally settled on a 30-day term.

Others include provisions (Note 39), accruals of selling and administrative expenses, and advances which are normally settled within a year.

## 18. Long-term Debt

This account consists of:

	Note	2017	2016
<b>Unsecured Peso-Denominated (net of debt issue costs)</b>			
Fixed rate corporate notes of 7% due in 2017	(a)	<b>P -</b>	P19,964
Fixed rate corporate notes of 6.3212% due until 2018 and 7.1827% due until 2021	(b)	<b>3,369</b>	3,401
Term loan of 5.4583% due until 2022	(f)	<b>4,986</b>	4,981
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	(g)	<b>19,835</b>	19,801
Fixed rate corporate notes of 5.5276% due quarterly until 2024	(i)	<b>14,380</b>	-
Fixed rate corporate notes of 5.7584% due until 2022	(j)	<b>9,950</b>	-
<b>Unsecured Foreign Currency-Denominated (net of debt issue costs)</b>			
Floating rate dollar loan - MYR100 million	(c)	-	832
Floating rate dollar loan - MYR100 million	(c)	-	920
Floating rate dollar loan - MYR50 million	(c)	-	506
Floating rate dollar loan - US\$475 million	(d)	-	6,556
Floating rate dollar loan - US\$550 million	(e)	-	22,891
Floating rate dollar loan - US\$1,000 million due until 2022	(h)	<b>49,185</b>	-
	33, 34, 35	<b>101,705</b>	79,852
Less current portion		<b>3,789</b>	20,911
		<b>P97,916</b>	P58,941

- On November 10, 2010, the Parent Company issued P20,000 Peso-denominated Notes, payable in US dollar. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment. The notes matured and were repaid on November 10, 2017.
- The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.
- On March 17, 2014, PMRMB availed of Malaysian ringgit (MYR) 100 million (P1,374) loan. Additionally, on June 27, 2014, PMRMB availed of MYR 100 million (P1,359) and on July 25, 2014, PFISB availed of five-year MYR 50 million (P685) loan. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) +1.5%. All the remaining balances of the loans were prepaid on various dates in 2017.

- d. On May 14, 2014, the Parent Company signed and executed a US\$300 million term loan facility. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a fixed spread. Proceeds were used to refinance existing debt and for general corporate purposes. Drawdowns and their respective amounts were made on the following dates: May 27, 2014 (US\$70 million); June 4, 2014 (US\$118 million); June 20, 2014 (US\$70 million) and July 2, 2014 (US\$42 million). On September 29, 2014, the Parent Company completed the syndication of the facility, raising the facility amount to US\$475 million. Drawdowns related to the additional US\$175 million were made as follows: October 24, 2014 (US\$70 million) and November 6, 2014 (US\$105 million). Amortization in seven equal amounts started in May 2016, with final amortization due in May 2019. In 2015, 2016 and 2017, the Parent Company made payments on the following dates: September 29, 2015 (US\$65 million); November 27, 2015 (US\$70 million); March 31, 2016 (US\$40 million); October 28, 2016 (US\$165 million); March 31, 2017 (US\$20 million) and June 28, 2017 (US\$115 million). As of December 31, 2017, the term loans from the facility have been fully paid.
- e. On July 29, 2015, the Parent Company drew US\$550 million from a US\$550 million refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of about US\$206 million and US\$345 million under the US\$480 million term loan facility and the US\$485 million term loan facility, respectively. On November 11, 2015, the Parent Company completed the syndication of the new facility with 29 banks. On October 28, 2016 and June 28, 2017, the Parent Company made partial and full payments amounting to US\$80 million and US\$470 million, respectively.
- f. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% per annum. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements.
- g. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of the Bonds were used to partially settle the US\$475 million and US\$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements. The Bonds were listed with the Philippine Dealing & Exchange Corp. on October 27, 2016.
- h. On June 16, 2017, the Parent Company signed and executed a US\$1,000 million term facility and has initially drawn US\$600 million on June 28, 2017. The proceeds were used to pay in full the outstanding balances of US\$115 million and US\$470 million loans under the US\$475 million and US\$550 million term loan facilities, respectively. On October 10, 2017, the Parent Company drew the remaining US\$400 million from the facility. The proceeds of which were used to settle the P20,000 Peso-denominated Notes which matured on November 10, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate based on LIBOR plus a spread.

- i. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5276% per annum. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") as discussed in Note 28.
- j. On December 29, 2017, the Parent Company drew P10,000 from a P10,000 bilateral facility which was signed and executed on December 28, 2017. The facility is amortized quarterly for five years beginning on the fifth quarter and is subject to a fixed rate of 5.7584% per annum. The proceeds were used to fund permanent working capital requirements.

The above-mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements and restrictions on guarantees.

As of December 31, 2017 and 2016, the Group has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P5,140, P4,155 and P1,013 for the years ended 2017, 2016 and 2015, respectively (Note 26). No interest was capitalized in 2017 and 2016 (Note 11).

Movements in debt issue costs follow:

	<i>Note</i>	<b>2017</b>	2016
Balance at beginning of year		<b>P915</b>	P1,208
Additions		<b>978</b>	205
Amortization for the year	26	<b>(820)</b>	(498)
Balance at end of year		<b>P1,073</b>	P915

#### Repayment Schedule

As of December 31, 2017 and 2016, the annual maturities of long-term debt are as follows:

<b>2017</b>			
<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2018	<b>P3,820</b>	<b>P31</b>	<b>P3,789</b>
2019	<b>19,938</b>	<b>602</b>	<b>19,336</b>
2020	<b>19,938</b>	<b>234</b>	<b>19,704</b>
2021	<b>35,557</b>	<b>150</b>	<b>35,407</b>
2022	<b>12,775</b>	<b>41</b>	<b>12,734</b>
2023 and beyond	<b>10,750</b>	<b>15</b>	<b>10,735</b>
	<b>P102,778</b>	<b>P1,073</b>	<b>P101,705</b>

2016 Year	Gross Amount	Debt Issue Costs	Net
2017	P20,956	P45	P20,911
2018	13,679	519	13,160
2019	12,642	116	12,526
2020	8,842	30	8,812
2021	16,648	134	16,514
2022 and beyond	8,000	71	7,929
	P80,767	P915	P79,852

## 19. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2017	2016
Balance at beginning of year		P2,324	P1,809
Additions		74	129
Effect of change in discount rate		98	278
Accretion for the year	22, 26	182	141
Effect of change in lease term		7	-
Settlement		(4)	(33)
Balance at end of year		P2,681	P2,324

## 20. Other Noncurrent Liabilities

	Note	2017	2016
Cylinder deposits		P577	P499
Cash bonds		400	387
Others		60	73
	34, 35	P1,037	P959

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

## 21. Equity

### a. Capital Stock

#### Common Shares

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2017 and 2016, the Parent Company had 144,316 and 145,602 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

#### Preferred Shares

On January 21, 2010, the SEC approved the Parent Company's amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B preferred shares (the "Series 2B Preferred Shares"). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2017 and 2016, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2017 and 2016 are as follows:

	2017	2016
Series 2A Preferred Shares	48	49
Series 2B Preferred Shares	31	31
	<b>79</b>	<b>80</b>

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2016 and 2017, the Parent Company's BOD approved the declaration of cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
<b>2015</b>				
Common	P0.05000	March 17, 2015	April 1, 2015	April 16, 2015
Series 2A	15.75000	March 17, 2015	April 17, 2015	May 4, 2015
Series 2B	17.14575	March 17, 2015	April 17, 2015	May 4, 2015
Series 2A	15.75000	March 17, 2015	July 20, 2015	August 3, 2015
Series 2B	17.14575	March 17, 2015	July 20, 2015	August 3, 2015
Series 2A	15.75000	August 10, 2015	October 16, 2015	November 3, 2015
Series 2B	17.14575	August 10, 2015	October 16, 2015	November 3, 2015
Series 2A	15.75000	August 10, 2015	January 18, 2016	February 3, 2016
Series 2B	17.14575	August 10, 2015	January 18, 2016	February 3, 2016
<b>2016</b>				
Common	P0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017
<b>2017</b>				
Common	P0.10000	March 14, 2017	March 28, 2017	April 12, 2017
Series 2A	15.75000	March 14, 2017	April 12, 2017	May 3, 2017
Series 2B	17.14575	March 14, 2017	April 12, 2017	May 3, 2017
Series 2A	15.75000	March 14, 2017	July 18, 2017	August 3, 2017
Series 2B	17.14575	March 14, 2017	July 18, 2017	August 3, 2017
Series 2A	15.75000	August 8, 2017	October 16, 2017	November 3, 2017
Series 2B	17.14575	August 8, 2017	October 16, 2017	November 3, 2017
Series 2A	15.75000	August 8, 2017	January 16, 2018	February 5, 2018
Series 2B	17.14575	August 8, 2017	January 16, 2018	February 5, 2018

Total cash dividends declared by the Parent Company amounted to P1,584 both in 2017 and 2016 and P1,114 in 2015.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 Project commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, Las Lucas' BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On September 29, 2015, NVRC's BOD approved the appropriation of retained earnings of P200 (P120 - attributable to non-controlling interest) and on December 20, 2016, an additional appropriation of P200 (P120 - attributable to non-controlling interest) was approved, both for the programmed lot acquisitions which are expected to be completed in 2019.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2017 and 2016 amounted to P15,160.

- c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint ventures and an associate amounting to P20,539, P15,040 and P11,401 as of December 31, 2017, 2016 and 2015, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- d. Equity reserves pertain to reserve for retirement plan, unrealized fair value losses on AFS financial assets, exchange differences on translation of foreign operations and others. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.
- e. Undated Subordinated Capital Securities (USCS)

In February 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US\$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of The Securities Regulation Code (SRC) was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company's option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distribution pertaining to the Securities amounting to US\$28.125 million were made on each of the following dates: February 6, 2015 (P1,770); August 6, 2015 (P1,837); February 5, 2016 (P1,918); August 5, 2016 (P1,889); February 3, 2017 (P2,000); and August 4, 2017 (P2,024).

## 22. Cost of Goods Sold

This account consists of:

	Note	2017	2016	2015
Inventories	9	<b>P369,695</b>	P283,169	P311,526
Depreciation and amortization	25	<b>8,043</b>	6,153	2,724
Materials and Supplies		<b>4,873</b>	1,397	1,637
Purchased services and utilities		<b>2,339</b>	10,486	8,156
Personnel expenses	24	<b>1,925</b>	1,647	1,565
Others	19, 31	<b>5,094</b>	3,273	3,126
		<b>P391,969</b>	P306,125	P328,734

Distribution or transshipment costs included as part of inventories amounted to P10,438, P10,711 and P11,066 in 2017, 2016 and 2015, respectively.

Others include manufacturing and overhead costs such as maintenance and repairs, taxes and licenses, insurance and rent.

## 23. Selling and Administrative Expenses

This account consists of:

	Note	2017	2016	2015
Depreciation and amortization	25	<b>P2,936</b>	P3,352	P3,548
Personnel expenses	24	<b>4,021</b>	3,373	3,150
Purchased services and utilities		<b>3,762</b>	3,004	2,597
Advertising		<b>1,524</b>	1,460	1,482
Maintenance and repairs		<b>1,276</b>	1,108	985
Materials and office supplies		<b>546</b>	754	603
Rent - net	29, 31	<b>464</b>	154	164
Taxes and licenses		<b>342</b>	415	314
Impairment losses on trade and other receivables	4, 8	<b>10</b>	68	154
Others	9	<b>136</b>	230	313
		<b>P15,017</b>	P13,918	P13,310

Selling and administrative expenses include research and development costs amounting to P65, P66 and P65 in 2017, 2016 and 2015, respectively (Note 9). Rent is shown net of rental income amounting to P1,180, P1,139 and P1,131 in 2017, 2016 and 2015, respectively.

## 24. Personnel Expenses

This account consists of:

	Note	2017	2016	2015
Salaries, wages and other employee costs	28	<b>P5,345</b>	P4,348	P4,210
Retirement benefits costs - defined benefit plan	28, 30	<b>508</b>	579	419
Retirement benefits costs - defined contribution plan	28	<b>93</b>	93	86
		<b>P5,946</b>	P5,020	P4,715

The above amounts are distributed as follows:

	Note	2017	2016	2015
Costs of goods sold	22	<b>P1,925</b>	P1,647	P1,565
Selling and administrative expenses	23	<b>4,021</b>	3,373	3,150
		<b>P5,946</b>	P5,020	P4,715

## 25. Depreciation and Amortization

This account consists of:

	Note	2017	2016	2015
<b>Cost of goods sold:</b>				
Property, plant and equipment	11	<b>P7,359</b>	P5,316	P2,291
Other assets	14	<b>684</b>	837	433
	22	<b>8,043</b>	6,153	2,724
<b>Selling and administrative expenses:</b>				
Property, plant and equipment	11	<b>2,602</b>	2,930	3,073
Investment property	12	<b>1</b>	1	1
Intangible assets and others	14	<b>333</b>	421	474
	23	<b>2,936</b>	3,352	3,548
	37	<b>P10,979</b>	P9,505	P6,272

## 26. Interest Expense and Other Financing Charges, Interest Income and Other Expenses

This account consists of:

	Note	2017	2016	2015
<b>Interest expense and other financing charges:</b>				
Long-term debt	18	<b>P4,320</b>	P3,657	P869
Short-term loans	15	<b>2,323</b>	2,323	3,284
Bank charges		<b>839</b>	999	1,157
Amortization of debt issue costs	18	<b>820</b>	498	144
Accretion on ARO	19	<b>182</b>	76	66
Others		<b>3</b>	4	13
	37	<b>P8,487</b>	P7,557	P5,533
<b>Interest income:</b>				
Advances to related parties	28	<b>P211</b>	P261	P297
Short-term placements	5	<b>236</b>	163	313
AFS financial assets	7	<b>22</b>	18	11
Trade receivables		<b>49</b>	50	45
Cash in banks	5	<b>16</b>	14	20
Others		<b>1</b>	1	-
	37	<b>P535</b>	P507	P686

Forward

	Note	2017	2016	2015
<b>Other expenses - net:</b>				
Foreign currency gains (losses) - net	34	<b>P1,192</b>	(P2,236)	(P4,305)
Changes in fair value of financial assets at FVPL	6	<b>14</b>	10	11
Insurance claims (charges)		<b>(36)</b>	16	61
Hedging gains (losses) - net		<b>(373)</b>	(152)	637
Marked-to-market gains (losses) - net	35	<b>(1,692)</b>	824	936
Others - net	13	<b>(12)</b>	(897)	(835)
		<b>(P907)</b>	(P2,435)	(P3,495)

The Parent Company recognized its share in the net income (loss) of PDSI amounting to P2, (P3) and (P4) in 2017, 2016 and 2015, respectively, and its share in the net income of TBSB amounting to P4 and P6 in 2017 and 2016, respectively. These were recorded as part of "Others - net" under "Other expenses - net" account in the consolidated statements of income.

Also included in "Others - net" were the following: (i) loss on disposal of investment in MNHPI amounting to P189 in 2017 (Note 10); (ii) rental income amounting to P63 in 2017 (Note 23); and (iii) impairment loss on goodwill in PAHL in 2016 amounting to P298 (Note 13).

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

	2017	2016
Various allowances, accruals and others	<b>P1,116</b>	P894
Net retirement benefits liability	<b>1,337</b>	878
ARO	<b>487</b>	373
Unutilized tax losses	<b>220</b>	197
Inventory differential	<b>199</b>	616
Rental	<b>188</b>	217
Fair market value adjustments on business combination	<b>(33)</b>	(31)
Unrealized foreign exchange losses (gains) - net	<b>(264)</b>	791
Capitalized taxes and duties on inventories deducted in advance	<b>(288)</b>	(211)
Excess of double-declining over straight-line method of depreciation and amortization	<b>(5,012)</b>	(3,587)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	<b>(5,140)</b>	(5,675)
MCIT	-	6
	<b>(P7,190)</b>	(P5,532)

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

	2017	2016
Deferred tax assets - net	P207	P194
Deferred tax liabilities - net	(7,397)	(5,726)
	<b>(P7,190)</b>	<b>(P5,532)</b>

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2017	2016	2015
Current	P2,754	P3,289	P1,448
Deferred	2,001	267	2,207
	<b>P4,755</b>	<b>P3,556</b>	<b>P3,655</b>

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	2017	2016	2015
Excess of double-declining over straight-line method of depreciation and amortization	P1,425	P805	(P156)
Unrealized foreign exchange losses (gains) - net	1,055	(118)	(67)
Inventory differential	417	258	(569)
Capitalized taxes and duties on inventories deducted in advance	77	(34)	34
Rental	29	38	(9)
MCIT	6	468	(232)
NOLCO	-	2	405
Unutilized tax gains (losses)	(23)	(13)	91
ARO	(114)	(78)	(75)
Various allowances, accruals and others	(222)	(480)	(14)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	(535)	(441)	2,818
Others	(114)	(140)	(19)
	<b>P2,001</b>	<b>P267</b>	<b>P2,207</b>

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	Note	2017	2016	2015
Statutory income tax rate		30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	36	(3.05%)	(9.63%)	-
Interest income subjected to lower final tax		(0.13%)	(0.13%)	(0.74%)
Nontaxable income		(3.52%)	(2.36%)	(0.89%)
Nondeductible expense		0.91%	1.85%	2.40%
Nondeductible interest expense		0.06%	0.06%	0.26%
Changes in fair value of financial assets at FVPL	26	(0.02%)	(0.02%)	(0.03%)
Excess of optional standard deduction over deductible expenses		(0.06%)	(0.05%)	(0.07%)
Others, mainly income subject to different tax rates		1.04%	5.01%	5.90%
Effective income tax rate		<b>25.23%</b>	<b>24.73%</b>	<b>36.83%</b>

#### Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made (Note 4).

## 28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	8, 30, a	2017	P211	P -	P5,188	P -	On demand; long-term; interest bearing	Unsecured; no impairment
		2016	261	-	5,042	-		
		2015	297	-	6,597	-		
Intermediate Parent	b, e	2017	10	650	4	27	On demand; non-interest bearing	Unsecured; no impairment
		2016	7	173	5	24		
		2015	9	74	3	35		
Under Common Control	14, b, c, d, i	2017	3,233	10,670	870	768	On demand; non-interest bearing	Unsecured; no impairment
		2016	6,473	30,773	1,096	5,850		
		2015	3,587	14,504	975	1,682		
Associate	b	2017	153	-	-	-	On demand; non-interest bearing	Unsecured; no impairment
		2016	154	-	33	-		
		2015	143	-	31	-		
Joint Ventures	c, f	2017	1	43	-	4	On demand; non-interest bearing	Unsecured; no impairment
		2016	-	42	-	3		
		2015	-	95	-	2		
		2017	P3,608	P11,363	P6,062	P799		
		2016	P6,895	P30,988	P6,176	P5,877		
		2015	P4,036	P14,673	P7,606	P1,719		

- As of December 31, 2017 and 2016, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" in the consolidated statements of financial position, for some investment opportunities (Notes 8 and 30).
- 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.
- 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.
- The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6. The lease, which commenced on June 1, 2014, is for a period of one year and was subsequently renewed on a yearly basis in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- TBSB, an operator of LPG bottling plant, provides bottling services to PFISB and another venturer.
- Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.

- Amounts owed to related parties consist of trade and non-trade payables.
- In 2016, the Parent Company reacquired the Power Plant from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account in the consolidated statements of financial position (Note 11). Amounts owed to related party arising from the transaction has been fully settled as of December 31, 2017.
- The compensation and benefits of key management personnel of the Group, by benefit type, included in the "Personnel expenses" account as follow (Note 24):

	2017	2016	2015
Salaries and other short-term employee benefits	P906	P754	P659
Retirement benefits costs - defined benefit plan	166	133	86
Retirement benefits costs - defined contribution plan	33	31	27
	P1,105	P918	P772

## 29. Operating Lease Commitments

### Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	2017	2016	2015
Within one year	P1,561	P1,322	P1,269
After one year but not more than five years	5,103	3,497	2,982
After five years	11,224	10,763	9,821
	P17,888	P15,582	P14,072

### Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

	2017	2016	2015
Within one year	P91	P187	P272
After one year but not more than five years	115	158	259
After five years	12	17	14
	P218	P362	P545

### 30. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2017. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Net Defined Benefit Retirement Asset (Liability)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
<b>Balance at beginning of year</b>	(P5,344)	(P5,603)	(P5,947)	P1,952	P12	P3,603	(P3,392)	(P5,591)	(P2,344)
<b>Recognized in Profit or Loss</b>									
Current service cost	(313)	(285)	(302)	-	-	-	(313)	(285)	(302)
Past service cost - plan amendment	-	(2)	-	-	-	-	-	(2)	-
Interest expense	(289)	(278)	(269)	-	-	-	(289)	(278)	(269)
Interest income	-	-	-	94	(14)	152	94	(14)	152
	(602)	(565)	(571)	94	(14)	152	(508)	(579)	(419)
<b>Recognized in Other Comprehensive Income</b>									
Remeasurements:									
Actuarial losses (gains) arising from:									
Experience adjustments	(555)	(398)	(163)	-	-	-	(555)	(398)	(163)
Changes in financial assumptions	105	173	151	-	-	-	105	173	151
Changes in demographic assumptions	43	302	197	-	-	-	43	302	197
Return on plan asset excluding interest	-	-	-	(735)	2,570	(3,297)	(735)	2,570	(3,297)
	(407)	77	185	(735)	2,570	(3,297)	(1,142)	2,647	(3,112)
<b>Others</b>									
Benefits paid	571	753	600	(528)	(651)	(546)	43	102	54
Contributions	-	-	-	100	35	100	100	35	100
Transfer to other accounts payable	(4)	-	6	-	-	-	(4)	-	6
Transfers from other plans/subsidiaries	-	(16)	-	-	-	-	-	(16)	-
Transfers to other plans/subsidiaries	-	16	-	-	-	-	-	16	-
Translation adjustment	(86)	(6)	124	-	-	-	(86)	(6)	124
	481	747	730	(428)	(616)	(446)	53	131	284
<b>Balance at end of year</b>	(P5,872)	(P5,344)	(P5,603)	P883	P1,952	P12	(P4,989)	(P3,392)	(P5,591)

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

	Note	2017	2016
Trade and other payables	17	P104	P77
Retirement benefits liability (noncurrent portion)		4,885	3,315
		<b>P4,989</b>	P3,392

Retirement benefits costs recognized in the consolidated statements of income by the Parent Company amounted to P408, P485 and P329 in 2017, 2016 and 2015, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P100, P94 and P90 in 2017, 2016 and 2015, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2017 and 2016.

Plan assets consist of the following:

	2017	2016
Shares of stock:		
Quoted	84%	82%
Unquoted	5%	4%
Government securities	7%	9%
Cash and cash equivalents	1%	2%
Others	3%	3%
	<b>100%</b>	100%

*Investment in Shares of Stock.* As of December 31, 2017, the Parent Company's plan assets include 731,156,097 common shares of Petron with fair market value per share of P9.17, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P76.50, and investment in Petron bonds amounting to P122.

The Group's plan recognized a gain (loss) on the investment in marketable securities and bonds of the Parent Company and SMC amounting to (P577), P2,169 and (P2,641) in 2017, 2016 and 2015, respectively, mainly as a result of marked-to-market remeasurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P85 both in 2017 and 2016 and P56 in 2015.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921. Accordingly, the plan recognized gain on sale of investment amounting to P503.

*Investment in Trust Account.* Investment in trust account represents funds entrusted to financial institutions for the purpose of maximizing the yield on investible funds.

Others include receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P818 to its defined benefit retirement plan in 2018.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Risk.* The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

*Longevity and Salary Risks.* The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2017	2016	2015
Discount rate	5.50% to 5.73%	5.38% to 5.53%	4.60% to 5.50%
Future salary increases	5.00% to 7.00%	5.00% to 8.00%	6.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.90 to 22.50 years and 5.46 to 23.90 years as of December 31, 2017 and 2016, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

2017	Defined Benefit Liabilities	
	1 Percent Increase	1 Percent Decrease
Discount rate	(P356)	P435
Salary increase rate	366	(322)

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

The Parent Company has advances to PCERP amounting to P5,188 and P5,042 as of December 31, 2017 and 2016, respectively, included as part of "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 28). The advances are subject to interest of 5% in 2017 and 2016 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2017 and 2016 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2017 and 2016.

### 31. Significant Agreements

**Supply 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 as of December 31, 2017 and 2016 (Note 16).

**Toll Service Agreement with Innospec Limited (Innospec).** PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement, PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P64 both in 2017 and 2016 and P48 in 2015.

**Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. (SMFI)** PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The agreement expired in November 2017 and was further renewed for another year until November 2018. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone.

**Lease Agreements with Philippine National Oil Company (PNOC).** On September 30, 2009, the Parent Company through NVRC, entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2017 and 2016, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 39).

### 32. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts are computed as follows:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	<b>P12,739</b>	P10,100	P5,618
Dividends on preferred shares for the year	<b>(646)</b>	(646)	(646)
Distributions to the holders of USCS	<b>(4,024)</b>	(3,807)	(3,607)
Net income attributable to common shareholders of the Parent Company (a)	<b>P8,069</b>	P5,647	P1,365
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375	9,375
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.86</b>	P0.60	P0.15

As of December 31, 2017, 2016 and 2015, the Parent Company has no potential dilutive debt or equity instruments.

### 33. Supplemental Cash Flow Information

a. Changes in operating assets and liabilities:

	2017	2016	2015
Decrease (increase) in assets:			
Trade and other receivables	(P6,593)	(P230)	P18,138
Inventories	(12,531)	(13,029)	22,875
Other current assets	(1,511)	954	(8,136)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum products	7,837	11,842	(10,030)
Trade and other payables and others	(165)	4,922	(27,934)
	(12,963)	4,459	(5,087)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence, goodwill and others	(80)	91	(397)
	(P13,043)	P4,550	(P5,484)

b. Changes in liabilities arising from financing activities:

	Dividends Payable	Short-term Loans	Long-term Debt	Total
Balance as of January 1, 2017	P218	P90,366	P79,852	P170,436
Changes from financing cash flows				
Proceeds from availment of loans	-	223,862	74,807	298,669
Payments of loans	-	(244,722)	(53,477)	(298,199)
Dividends declared	5,794	-	-	5,794
Dividends and distributions paid	(5,773)	-	-	(5,773)
Total changes from financing cash flows	21	(20,860)	21,330	491
Effects of changes in foreign exchange rates	-	77	(297)	(220)
Amortization of debt issue costs	-	-	820	820
<b>Balance at end of year</b>	<b>P239</b>	<b>P69,583</b>	<b>P101,705</b>	<b>P171,527</b>

### 34. Financial Risk Management Objectives and Policies

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

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

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

#### Risk Management Structure

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

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

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

- The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.
- The Treasurers Department, which is in charge of foreign currency hedging transactions.
- The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the BOD, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- 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:

	2017		2016	
	US dollar (in millions)	Phil. peso Equivalent	US dollar	Phil. Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	19	952	261	12,989
Trade and other receivables	118	5,891	218	10,808
Other assets	3	126	5	244
	<b>140</b>	<b>6,969</b>	484	24,041
<b>Liabilities</b>				
Short-term loans	1	30	40	1,996
Liabilities for crude oil and petroleum products	515	25,747	539	26,798
Long-term debts (including current maturities)	1,000	49,930	651	32,347
Other liabilities	35	1,733	82	4,056
	<b>1,551</b>	<b>77,440</b>	1,312	65,197
<b>Net foreign currency-denominated monetary liabilities</b>	<b>(1,411)</b>	<b>(70,471)</b>	(828)	(41,156)

The Group incurred net foreign currency gains (losses) amounting to P1,192, (P2,236) and (P4,305) in 2017, 2016 and 2015, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (losses) (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of December 31 are shown in the following table:

	PhP to US\$
<b>December 31, 2017</b>	<b>49.930</b>
December 31, 2016	49.720
December 31, 2015	47.060

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2017 and 2016:

2017	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(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)

2016	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P132)	(P221)	P132	P221
Trade and other receivables	(97)	(189)	97	189
Other assets	-	(5)	-	5
	(229)	(415)	229	415
Short-term loans	-	40	-	(40)
Liabilities for crude oil and petroleum products	294	451	(294)	(451)
Long-term debts (including current maturities)	605	470	(605)	(470)
Other liabilities	14	77	(14)	(77)
	913	1,038	(913)	(1,038)
	P684	P623	(P684)	(P623)

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

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates mainly to long-term borrowings and investment securities. Investments or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investments or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P499 and P323 in 2017 and 2016, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

*Interest Rate Risk Table.* As of December 31, 2017 and 2016, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
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%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	-	14,266	14,266	14,266	7,132	-	49,930
Interest rate*		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 been given an option to reprice every 3 or 6 months.

2016	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.52% - 5.5%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US\$ denominated (expressed in PhP)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

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

### Credit Risk

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

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

	Note	2017	2016
Cash in bank and cash equivalents (net of cash on hand)	5	<b>P14,313</b>	P15,538
Derivative assets	6	<b>165</b>	64
Available-for-sale financial assets	7	<b>531</b>	479
Trade and other receivables - net	8	<b>38,159</b>	31,548
Long-term receivables - net	14	<b>228</b>	205
Noncurrent deposits	14	<b>90</b>	81
		<b>P53,486</b>	P47,915

The credit risk for cash and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.

In monitoring trade receivables and credit lines, the Group maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly), past due accounts (weekly) and credit utilization efficiency (semi-annually).

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,927 and P3,943 as of December 31, 2017 and 2016, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2017 and 2016 are shown below (Note 8):

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
<b>December 31, 2017</b>				
Reseller	<b>P4,284</b>	<b>P128</b>	<b>P45</b>	<b>P4,457</b>
Lubes	<b>1,412</b>	<b>90</b>	<b>60</b>	<b>1,562</b>
Gasul	<b>894</b>	<b>113</b>	<b>115</b>	<b>1,122</b>
Industrial	<b>9,605</b>	<b>452</b>	<b>468</b>	<b>10,525</b>
Others	<b>9,008</b>	<b>163</b>	<b>88</b>	<b>9,259</b>
	<b>P25,203</b>	<b>P946</b>	<b>P776</b>	<b>P26,925</b>

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
<b>December 31, 2016</b>				
Reseller	P3,221	P127	P63	P3,411
Lubes	450	7	11	468
Gasul	529	61	118	708
Industrial	7,316	382	535	8,233
Others	6,162	277	80	6,519
	P17,678	P854	P807	P19,339

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

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

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

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

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2017 and 2016:

	Trade Accounts Receivables Per Class			Total
	Class A	Class B	Class C	
<b>December 31, 2017</b>				
Reseller	<b>P846</b>	<b>P3,207</b>	<b>P404</b>	<b>P4,457</b>
Lubes	<b>358</b>	<b>1,023</b>	<b>181</b>	<b>1,562</b>
Gasul	<b>533</b>	<b>447</b>	<b>142</b>	<b>1,122</b>
Industrial	<b>5,440</b>	<b>4,093</b>	<b>992</b>	<b>10,525</b>
Others	<b>4,067</b>	<b>4,267</b>	<b>925</b>	<b>9,259</b>
	<b>P11,244</b>	<b>P13,037</b>	<b>P2,644</b>	<b>P26,925</b>

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2016				
Reseller	P501	P2,775	P135	P3,411
Lubes	366	50	52	468
Gasul	287	258	163	708
Industrial	2,416	4,959	858	8,233
Others	3,273	2,408	838	6,519
	P6,843	P10,450	P2,046	P19,339

#### Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2017 and 2016.

2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,014	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	-	-	-
AFS financial assets	531	577	204	64	309	-
Long-term receivables - net	228	228	-	-	-	228
Noncurrent deposits	90	90	-	-	9	81
<b>Financial Liabilities</b>						
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 debts (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

2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P17,332	P17,332	P17,332	P -	P -	P -
Trade and other receivables	31,548	31,548	31,548	-	-	-
Derivative assets	64	64	64	-	-	-
Financial assets at FVPL	157	157	157	-	-	-
AFS financial assets	479	522	96	208	172	46
Long-term receivables - net	205	205	-	-	205	-
Noncurrent deposits	81	81	-	13	68	-
<b>Financial Liabilities</b>						
Short-term loans	90,366	90,882	90,882	-	-	-
Liabilities for crude oil and petroleum products	29,966	29,966	29,966	-	-	-
Trade and other payables*	12,065	12,065	12,065	-	-	-
Derivative liabilities	778	778	778	-	-	-
Long-term debts (including current maturities)	79,852	91,103	24,673	15,711	42,050	8,669
Cash bonds	387	393	-	372	4	17
Cylinder deposits	499	499	-	-	-	499
Other noncurrent liabilities**	73	73	-	14	34	25

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

\*\*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 CRMD is in place. Decisions are guided by the conditions set and approved by the Group's management.

#### Other Market Price Risk

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

#### Capital Management

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

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

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

	2017	2016
Total assets	<b>P338,030</b>	P318,893
Total liabilities	<b>238,411</b>	230,073
Total equity	<b>99,619</b>	88,820
Debt to equity ratio	<b>2.4:1</b>	2.6:1
Assets to equity ratio	<b>3.4:1</b>	3.6:1

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

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

### 35. Financial Assets and Financial Liabilities

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

	Note	2017		2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets (FA):					
Cash and cash equivalents	5	<b>P17,014</b>	<b>P17,014</b>	P17,332	P17,332
Trade and other receivables	8	<b>38,159</b>	<b>38,159</b>	31,548	31,548
Long-term receivables - net	14	<b>228</b>	<b>228</b>	205	205
Noncurrent deposits	14	<b>90</b>	<b>90</b>	81	81
Loans and receivables		<b>55,491</b>	<b>55,491</b>	49,166	49,166
AFS financial assets	7	<b>531</b>	<b>531</b>	479	479
Financial assets at FVPL	6	<b>171</b>	<b>171</b>	157	157
Derivative assets	6	<b>165</b>	<b>165</b>	64	64
FA at FVPL		<b>336</b>	<b>336</b>	221	221
Total financial assets		<b>P56,358</b>	<b>P56,358</b>	P49,866	P49,866

	Note	2017		2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities (FL):					
Short-term loans	15	<b>P69,583</b>	<b>P69,583</b>	P90,366	P90,366
Liabilities for crude oil and petroleum products	16	<b>36,920</b>	<b>36,920</b>	29,966	29,966
Trade and other payables*	17	<b>7,917</b>	<b>7,917</b>	12,065	12,065
Long-term debt including current portion	18	<b>101,705</b>	<b>101,705</b>	79,852	79,852
Cash bonds	20	<b>400</b>	<b>400</b>	387	387
Cylinder deposits	20	<b>577</b>	<b>577</b>	499	499
Other noncurrent liabilities**	20	<b>57</b>	<b>57</b>	73	73
FL at amortized cost		<b>217,159</b>	<b>217,159</b>	213,208	213,208
Derivative liabilities		<b>1,791</b>	<b>1,791</b>	778	778
Total financial liabilities		<b>P218,950</b>	<b>P218,950</b>	P213,986	P213,986

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

\*\*excluding cash bonds and cylinder deposits

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

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

**Financial Assets at FVPL and AFS Financial Assets.** The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

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

**Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities.** Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2017 and 2016 are 5.82% and 4.99%, respectively.

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

#### Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are recognized directly in profit or loss.

#### Freestanding Derivatives

Freestanding derivatives consist of commodity and currency entered into by the Group.

*Currency Forwards.* As of December 31, 2017 and 2016, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,283 million and US\$875 million, respectively, and with various maturities in 2018 and 2017. As of December 31, 2017 and 2016, the net negative fair value of these currency forwards amounted to P445 and P38, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2018 and 2017. 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 42.6 million barrels and 26.3 million barrels for 2017 and 2016, respectively. The estimated net payouts for these transactions amounted to P1,181 and P676 as of December 31, 2017 and 2016, respectively.

*Commodity Options.* As of December 31, 2017 and 2016, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

#### Embedded Derivatives

Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of 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 December 31, 2017 and 2016, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2017 and 2016, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2017, 2016 and 2015, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,692), P824 and P936, respectively (Note 26).

#### Fair Value Changes on Derivatives

The net movements in the fair value of all derivative transactions in 2017 and 2016 are as follows:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Fair value at beginning of year		<b>(P714)</b>	(P241)
Net changes in fair value during the year	26	<b>(1,692)</b>	824
Fair value of settled instruments		<b>780</b>	(1,297)
Fair value at end of year		<b>(P1,626)</b>	(P714)

#### Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2017 and 2016. The different levels have been defined as follows:

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

<b>2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P -</b>	<b>P171</b>	<b>P171</b>
Derivative assets	-	<b>165</b>	<b>165</b>
AFS financial assets	<b>201</b>	<b>330</b>	<b>531</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(1,791)</b>	<b>(1,791)</b>

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

The Group has no financial instruments valued based on Level 3 as of December 31, 2017 and 2016. During the year, there were no transfers between and into and out of Level 1 and Level 2 fair value measurements.

### 36. Registration with the Board of Investments (BOI)

#### Benzene, Toluene and Propylene Recovery Units

On October 20, 2005, the Parent Company registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, the Parent Company is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, the Parent Company is entitled to certain benefits on its production of petroleum products used as petrochemical feedstock, mainly, among others, Income Tax Holiday (ITH): (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

The BOI extended the Parent Company's ITH incentive for its propylene sales from December 2013 to November 2014 and for its benzene and toluene sales from May 2014 to April 2015.

#### RMP-2 Project

On June 3, 2011, the BOI approved the Parent Company's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH in 2016 and 2017.

On August 11, 2017, the BOI approved the Parent Company's application for the ITH incentive. The approval also covers the claim for income tax exemption in the Parent Company's 2016 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by the Parent Company to support its ITH credits in 2017 and 2016.

### 37. Segment Information

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

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

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, 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 and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### Inter-segment Transactions

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

#### Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2017, 2016 and 2015.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Revenue:						
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	16,263	118	141	44	(2,479)	14,087
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	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

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2016</b>						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,982	132	517	32	(162,663)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets*	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities*	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

\*excluding deferred tax assets and liabilities

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2015</b>						
Revenue:						
External sales	P357,908	P -	P33	P2,270	(P33)	P360,178
Inter-segment sales	158,171	107	509	55	(158,842)	-
Operating income	17,048	78	256	83	669	18,134
Net income	9,349	103	97	87	(3,366)	6,270
Assets and liabilities:						
Segment assets*	333,187	1,097	5,181	904	(46,313)	294,056
Segment liabilities*	216,062	178	4,004	313	(14,028)	206,529
Other segment information:						
Property, plant and equipment	156,319	-	-	208	5,070	161,597
Depreciation and amortization	6,164	-	2	39	67	6,272
Interest expense	5,533	-	183	-	(183)	5,533
Interest income	846	15	1	7	(183)	686
Income tax expense	3,479	11	35	21	109	3,655

\*excluding deferred tax assets and liabilities

Inter-segment sales transactions amounted to P199,784, P162,663 and P158,842 for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2017, 2016 and 2015:

	Reseller	Lube	Gasul	Industrial	Others	Total
<b>2017</b>						
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
<b>2016</b>						
Revenue	161,415	4,445	17,922	83,650	74,547	341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334
<b>2015</b>						
Revenue	169,179	4,052	18,119	81,587	84,971	357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585

#### Geographical Segments

The following table presents segment assets of the Group as of December 31, 2017 and 2016.

	2017	2016
Local	P271,883	P261,761
International	65,940	56,938
	<b>P337,823</b>	<b>P318,699</b>

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2017, 2016 and 2015.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>2017</b>						
Local	P271,117	P29	P584	P745	(P1,156)	P271,319
Export/international	361,879	54	-	-	(198,628)	163,305
<b>2016</b>						
Local	204,585	64	593	1,855	(1,686)	205,411
Export/international	299,375	68	-	-	(161,014)	138,429
<b>2015</b>						
Local	212,724	57	542	2,325	(2,014)	213,634
Export/international	303,355	50	-	-	(156,861)	146,544

#### 38. Events After the Reporting Date

- 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 redeemed pursuant to the Tender Offer were cancelled. 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 refinance 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.
- c. 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

### 39. Other Matters

- a. Lease Agreements with PNOC

On October 20, 2017, the Parent Company filed with the Regional Trial Court (RTC) of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction. In its complaint, the Parent Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company. These 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 stemmed from PNOC's refusal 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.

The Parent Company alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Parent Company.

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. On December 29, 2017, the trial court mandated the conduct of mediation proceedings on February 5, 2018 before the Philippine Mediation Center. The case was still pending as of December 31, 2017.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. In an Order dated February 28, 2018, upon motion of the Parent Company, the trial court directed that the case be returned to the Office of the Clerk of Court for re-affle for the judicial dispute resolution proceeding. As of March 13, 2018, the Parent Company is awaiting the notice on the date for the re-affle.

- b. Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against the Parent Company relating to its use of P659 worth of Tax Credit Certificate (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals (CA) promulgated a decision in favor of the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to the Parent Company. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Parent Company filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2017.

- c. Pandacan Terminal Operations

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

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance, which applied to the entire City of Manila. Ordinance No. 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the “March 7 Decision”) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Presidential Decree No. 1067, *Water Code of the Philippines*. On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

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

On August 24, 2012 (the “August 24 Decision”), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. The Parent Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. In a decision dated September 19, 2017, the CA denied the appeal of the Parent Company, finding that Manila’s Comprehensive Land Use Plan was valid, except for Section 55 of Ordinance No. 8119. Section 55, which imposed an easement of 10 meters from the riverbank to serve as a linear park, was struck down as invalid because it violated the Water Code which required only a three-meter easement. The Parent Company no longer filed a motion for reconsideration or elevated the matter to the Supreme Court since the issue has already become moot following the cessation by the Parent Company of the operations of its petroleum storage facilities in Pandacan in August 2015.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (the “November 25 Decision”) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell’s motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, the Parent Company filed its submission in compliance with the November 25 Decision.

d. Oil Spill Incident in Guimaras

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2017.

e. Other Proceedings

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

f. The Group has unused letters of credit totaling approximately P19,515 and P21,638 as of December 31, 2017 and 2016, respectively.

# Terminals and Airport Installations

## LUZON

### APARRI

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

### BATANGAS

Bo. Mainaga, Mabini, Batangas

### LIMAY

Limay, Bataan

### NAVOTAS

PFDA CMPD., Navotas,  
Metro Manila

### PASACAO

Brgy. Camangi, Pasacao,  
Camarines Sur

### PALAWAN

Parola, Brgy. Maunlad,  
Puerto Princesa City

### PORO

Poro Pt., San Fernando, La Union

### ROSARIO

General Trias, Rosario, Cavite

## VISAYAS

### AMLAN

Tandayag, Amlan, Negros Oriental

### BACOLOD

Bo. San Patricio, Bacolod City

### ILOILO

Lapuz, Iloilo City

## ISABEL

LIDE, Isabel, Leyte

## MACTAN

MEPZ, Lapu-Lapu City

## MANDAUE

Looc, Mandaue City

## ORMOC

Bo. Linao, Ormoc City

## ROXAS

Arnaldo Blvd., Culasi

## TACLOBAN

Anibong, Tacloban City

## TAGBILARAN

Graham Ave., Tagbilaran City

## MINDANAO

### DAVAO

Km. 9, Bo. Pampanga, Davao City

### BAWING

Purok Cabu, Bawing,  
General Santos City

### ILIGAN

Bo. Tuminobo, Iligan City

### JIMENEZ

Jimenez, Misamis Occidental

### NASIPIT

Talisay, Nasipit, Agusan del Norte

### TAGOLOAN

Tagoloan, Misamis Oriental

### ZAMBOANGA

Brgy. Campo Islam, Lower Calarian,  
Zamboanga City

## AIRPORT INSTALLATIONS

### DAVAO

Davao Airport

### ILOILO

Brgy. Airport, Mandurraio,  
Iloilo City

### LAOAG

Laoag Airport

### NAIA JOCASP

Compound, NAIA, Pasay City

## LPG OPERATIONS

### PASIG

Bo. Ugong, Pasig, Metro Manila

### LEGASPI

Lakandula Drive, Brgy. Bonot,  
Legaspi City

### SAN FERNANDO

San Fernando, Pampanga

## CALAMBA WAREHOUSE

### CALAMBA

Calamba, Laguna

# Products List

## FUELS

### Automotive Fuels

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

### Industrial Fuels

Petron Fuel Oil

### Aviation Fuels

Aviation Gasoline  
Jet A- I

### Household Fuels

Gasul  
Gaas

## AUTOMOTIVE LUBRICATING OILS

### Diesel Engine Oils

Rev-X Fully Synthetic  
Rev-X Premium Multi-grade  
Rev-X Multi-grade  
Rev-X Pantra  
Rev-X HD  
Rev-X Hauler

### Gasoline Engine Oils

Blaze Racing HTP  
Blaze Racing Fully Synthetic  
Blaze Racing Synthetic Blend  
Ultron Fully Synthetic  
Ultron Synthetic Blend  
Ultron Premium Multi-grade  
Ultron Multi-grade  
Petron MO

### Motorcycle Oils

Petron Sprint 4T Fully Synthetic  
Petron Sprint 4T Premium Multi-grade  
Petron Sprint 4T Multi-grade  
Petron Sprint 4T Monograde  
2T Autolube  
2T Premium  
2T Powerburn

### Automotive Gear Oils

Petron GX  
Petron GEP  
Petron GST

### Automotive Transmission Fluids

Petron ATF Premium HTP  
Petron ATF Premium  
Petron TF 38  
Petron TDH 50

### Other Automotive Oils

STM

## INDUSTRIAL LUBRICATING OILS

### Turbine, Hydraulic and Circulating Oils

Hydrotur AWX  
Hydrotur AWW  
Hydrotur AW GT  
Hydrotur EP 46  
Hydrotur N 100  
Hydrotur R  
Hydrotur SX 32  
Hydrotur SX 68  
Hydrotur T  
Hydrotur TEP

### Industrial Gear Oils

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

### Cutting Oils

Turnol 40  
Petrokut 10  
Petrokut 27

### Refrigeration Oils

Zerflo 68  
Zerflo P68  
Suniso 4GS

### Transformer Oil

Voltran 60

### Slideway Oil

Hydrotur SW 68  
Hydrotur SW 220

### Other Industrial Lubricating Oils

Petron Airlube  
Petrosine

## MARINE LUBRICATING OILS

### Crosshead Engine Cylinder Oils

Petromar DCL 7050  
Petromar DCL 4000 Series

### Trunk Piston Engine Oils

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

### Crosshead Engine System Oil

Petromar 65

### Marine Outboard 2-stroke oil

Petron Regatta

## GREASES

### Multi-purpose Greases

Petrogrease MP  
Molygrease Premium  
Petrogrease Premium

### Water Resistant Grease

Petrogrease XX

### Extreme Pressure Greases

Petrogrease EP  
Molygrease EP2  
Molygrease EP 1P  
Molygrease EP 2P  
Petrogrease EP 375

### High Temperature Greases

Petrogrease HT  
Petron Grease HTP

### Complex Greases

Petron Premium Lithium Complex

## ASPHALTS

### Penetration Asphalt

Petropen

### Cutback Asphalt

Petropen CB

### Emulsified Asphalt

Petromul SS-I  
Petromul CSS -I

### Blown Asphalts

Asphaltseal  
Asphalt Joint Sealer

### Polymer Modified Bitumen

Petron Polymer Modified Bitumen

## SPECIAL PRODUCTS

### Process Oils

Stemol  
Petrosine 68

### Heat Transfer Oil

Petrotherm 32

### Cleaning Agent

Greasaway

### Protective Coatings

Petrokote 392  
Marinekote  
Autokote  
Cablelube  
Cablekote

## AFTERMARKET SPECIALTIES

### PetroMate Specialties

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

## AVIATION LUBRICANTS

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

## PERFORMANCE ADDITIVES

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

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# Investor Information

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[www.twitter.com/Petron\\_Corp](https://www.twitter.com/Petron_Corp)

## Shareholder Service and Assistance

For questions and comments regarding dividend payments, change of address, account status, loss or damaged stock certificates, please get in touch with:  
SMC Stock Transfer Service Corporation  
40 San Miguel Avenue 1550 Mandaluyong City  
Trunkline: (632) 632-3450 to 52  
Fax No.: (632) 632-3535  
Email Address: [smc\\_stsc@sanmiguel.com.ph](mailto:smc_stsc@sanmiguel.com.ph)

## Investor Relations

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