C O V E R S H E E T

3 1 1 7 1

S. E. C. Registration Number

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

(Company's Full Name)

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

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

ATTY. JOEL ANGELO C. CRUZ
Contact Person

884-9200
Company Telephone Number

1 2 - 3 1
Month Day
Fiscal Year

SEC Form 17-Q (1st Quarter 2016)
FORM TYPE

0 5 1 7
Month Day
Annual Meeting
(For 2016)

Permit to offer securities
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

149,374 (as of March 31, 2016)
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

Fiscal Number

LCU

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Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2016.

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

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

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

6. [ ] (SEC Use Only)
Industry Classification Code:

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding(As of March 31, 2016)
Common Stock	9,375,104,497 Shares
Preferred Stock Series 2A	7,122,320 Shares
Preferred Stock Series 2B	2,877,680 Shares
Total Liabilities	P202,545 Million (as of March 31, 2016)

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

Yes [X]   No [ ]

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

Philippine Stock Exchange	Common and Preferred Shares

12. Indicate by check mark whether the Registrant:

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

Yes [X]   No [ ]

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

Yes [X]   No [ ]

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Amounts in Million Pesos)

	Note	**Unaudited March 31 2016**	Audited December 31 2015
ASSETS			
Current Assets			
Cash and cash equivalents	*9, 10*	**P14,078**	P18,881
Financial assets at fair value through profit or loss	*9, 10*	**302**	509
Available-for-sale financial assets	*9, 10*	**20**	233
Trade and other receivables - net	*7, 9, 10*	**27,109**	30,749
Inventories		**32,456**	30,823
Other current assets	*7*	**34,170**	34,530
Total Current Assets		**108,135**	115,725
Noncurrent Assets			
Available-for-sale financial assets	*9, 10*	**389**	388
Property, plant and equipment - net	*5*	**161,266**	161,597
Investment in shares of stock of an associate		**1,834**	1,814
Investment property - net		**111**	112
Deferred tax assets		**245**	211
Goodwill		**8,196**	7,694
Other noncurrent assets - net	*7, 9, 10*	**6,749**	6,726
Total Noncurrent Assets		**178,790**	178,542
		P286,925	P294,267
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*8, 9, 10*	**P84,597**	P99,481
Liabilities for crude oil and petroleum product importation	*9, 10*	**19,292**	16,271
Trade and other payables	*7, 9, 10*	**14,521**	9,347
Derivative liabilities	*9, 10*	**932**	603
Income tax payable		**112**	183
Current portion of long-term debt - net	*9, 10*	**998**	694
Total Current Liabilities		**120,452**	126,579

Forward

	Note	**Unaudited March 31 2016**	Audited December 31 2015
Noncurrent Liabilities			
Long-term debt - net of current portion	*9,10*	**P69,036**	P71,726
Retirement benefits liability		**5,647**	5,509
Deferred tax liabilities		**4,629**	4,638
Asset retirement obligation		**1,817**	1,809
Other noncurrent liabilities	*7, 9, 10*	**964**	906
Total Noncurrent Liabilities		**82,093**	84,588
Total Liabilities		**202,545**	211,167
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,485**	9,485
Additional paid-in capital		**19,653**	19,653
Undated subordinated capital securities		**30,546**	30,546
Retained earnings		**41,258**	41,712
Reserve for retirement plan		**(3,203)**	(3,204)
Other reserves		**(4,742)**	(5,563)
Treasury stock		**(10,000)**	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		**82,997**	82,629
Non-controlling Interests		**1,383**	471
Total Equity		**84,380**	83,100
		P286,925	P294,267

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

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

		For the Three Months Ended March 31	
	Note	**2016**	2015
SALES	*4*	**P76,857**	P86,744
COST OF GOODS SOLD		**67,915**	80,987
GROSS PROFIT		**8,942**	5,757
SELLING AND ADMINISTRATIVE EXPENSES		**(3,178)**	(2,789)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(1,857)**	(1,371)
INTEREST INCOME		**145**	238
SHARE IN NET INCOME OF ASSOCIATE		**20**	21
OTHER EXPENSES - Net		**(582)**	(1,561)
		(5,452)	(5,462)
INCOME BEFORE INCOME TAX		**3,490**	295
INCOME TAX EXPENSE		**732**	38
NET INCOME		**P2,758**	P257
Attributable to:			
Equity holders of the Parent Company		**P2,725**	P77
Non-controlling interests		**33**	180
		P2,758	P257
BASIC/DILUTED EARNINGS / (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*12*	**P0.17**	(P0.10)

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Million Pesos)

	For the Three Months Ended March 31	
	2016	2015
NET INCOME	**P2,758**	P257
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
Equity reserve for retirement plan	**1**	**(3)**
Income tax benefit	**-**	**1**
	1	**(2)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Exchange differences on translation of foreign operations	**1,696**	(1,648)
Unrealized fair value gains (losses) on available-for-sale financial assets	**5**	(4)
Income tax expense	**(1)**	-
	1,700	(1,652)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**1,701**	(1,654)
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	**P4,459**	(P1,397)
Attributable to:		
Equity holders of the Parent Company	**P4,117**	(P1,389)
Non-controlling interests	**342**	(8)
	P4,459	(P1,397)

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(Amounts in Million Pesos)

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings							
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2016 (Audited)		**P9,485**	**P19,653**	**P30,546**	**P25,082**	**P16,630**	**(P3,204)**	**(P5,563)**	**(P10,000)**	**P82,629**	**P471**	**P83,100**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**2,725**	**1**	**1,391**	**-**	**4,117**	**342**	**4,459**
Cash dividends and distributions	*12*	**-**	**-**	**-**	**-**	**(3,179)**	**-**	**-**	**-**	**(3,179)**	**-**	**(3,179)**
Acquisition of additional interest in a subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**(570)**	**-**	**(570)**	**570**	**-**
As of March 31, 2016 (Unaudited)		**P9,485**	**P19,653**	**P30,546**	**P25,082**	**P16,176**	**(P3,203)**	**(P4,742)**	**(P10,000)**	**P82,997**	**P1,383**	**P84,380**
As of January 1, 2015 (Audited)		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P -	P97,322	P16,360	P113,692
Total comprehensive income (loss) for the period		-	-	-	-	77	(2)	(1,464)	-	(1,389)	(8)	(1,397)
Cash dividends and distributions	*12*	-	-	-	-	(2,561)	-	-	-	(2,561)	(418)	(2,979)
Redemption of preferred shares		-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
As of March 31, 2015 (Unaudited)		P9,485	P19,653	P30,546	P25,171	P13,160	(P1,020)	(P3,613)	(P10,000)	P83,382	P15,934	P99,316

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Million Pesos)

		For the Three Months Ended March 31	
	Note	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P3,490**	P295
Adjustments for:			
Depreciation and amortization		**2,280**	1,439
Interest expense and other financing charges		**1,857**	1,371
Retirement benefits costs		**147**	75
Share in net income of an associate		**(20)**	(21)
Interest income		**(145)**	(238)
Unrealized foreign exchange losses (gains) - net		**(1,376)**	23
Other losses (gains)		**1,004**	(207)
Operating income before working capital changes		**7,237**	2,737
Changes in noncash assets, certain current liabilities and others		**9,532**	(2,191)
Interest paid		**(1,845)**	(2,164)
Income taxes paid		**(339)**	(68)
Interest received		**154**	323
Net cash flows provided by (used in) operating activities		**14,739**	(1,363)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	*5*	**(548)**	(5,891)
Proceeds from sale of property and equipment		**-**	2
Increase in:			
Other receivables		**(74)**	(73)
Other noncurrent assets		**(27)**	(183)
Reductions from (additions to):			
Available-for-sale financial assets		**212**	394
Investment in shares of stock of an associate		**-**	(525)
Net cash flows used in investing activities		**(437)**	(6,276)

Forward

	Note	For the Three Months Ended March 31 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans		**P53,850**	P49,041
Payments of:			
Loans		**(70,674)**	(74,891)
Cash dividends and distributions		**(2,102)**	(2,864)
Redemption of preferred shares		**-**	(10,000)
Increase in other noncurrent liabilities		**38**	484
Net cash flows used in financing activities		**(18,888)**	(38,230)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(217)**	(65)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,803)**	(45,934)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**18,881**	90,602
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**P14,078**	P44,668

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

Certified by:

DENNIS S. JANSON
Assistant Vice President - Controllers

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

1. Reporting Entity

Petron Corporation (the "Parent Company" or "Petron"), a subsidiary of San Miguel Corporation (SMC or the Intermediate Parent), was incorporated under the laws of the Republic of the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the corporate term of Petron until December 22, 2066. Top Frontier Investment Holdings, Inc. (Top Frontier) is the Ultimate Parent Company of Petron.

Petron is the largest oil refining and marketing company in the Philippines supplying nearly 40% of the country's fuel requirements. Petron is committed to its vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

The registered office address of Petron is No. 40 San Miguel Avenue, Mandaluyong City.

2. Statement of Compliance

The consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2015. The consolidated interim financial statements do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") as at and for the year ended December 31, 2015. The audited consolidated financial statements are available upon request from the Group's registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2015. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended December 31, 2016.

<u>Adoption of New Standards, Amendments to Standards and Interpretations</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised standards, amendments to standards and interpretations [based on International Financial Reporting Interpretation Committee (IFRIC) Interpretations] as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2016

The Group has adopted the following applicable PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

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

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

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

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

  The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Group's consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

  - *Changes in method for disposal (Amendment to PFRS 5).* PFRS 5 is amended to clarify that:

    - if an entity changes the method of disposal of an asset (or disposal group) - i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

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

The amendment to PFRS 5 is applied prospectively in accordance with PAS 8 to changes in methods of disposal that occur on or after January 1, 2016.

- *'Continuing Involvement' for Servicing Contracts (Amendments to PFRS 7, Financial Instruments: Disclosures)*. PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.' The amendments to PFRS 7 are applied retrospectively, in accordance with PAS 8, except that the PFRS 7 amendments relating to servicing contracts need not be applied for any period presented that begins before the annual period for which the entity first applies those amendments.

  The amendment to PFRS 7 is applied retrospectively, in accordance with *PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, except that the PFRS 7 amendment relating to servicing contracts need not be applied for any period presented that begins before the annual period for which the entity first applies this amendment.

- *Discount rate in a regional market sharing the same currency – e.g. the Eurozone (Amendment to PAS 19).* The amendment to PAS 19 clarifies that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

  The amendment to PAS 19 is applied from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the amendment, with any initial adjustment recognized in retained earnings at the beginning of that period.

▪ *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:

  - Information should not be obscured by aggregating or by providing immaterial information.

  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- PFRS 9 (2014) replaces PAS 39 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 of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge 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. Early adoption is permitted.

- 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 not permitted until the FRSC has adopted PFRS 15. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

- IFRS 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 Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary 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.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sale of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11 or PAS 18 and the timing of revenue recognition. The SEC issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

- *Disclosure initiative (Amendments to PAS 7)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of 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 statement of financial position for liabilities arising from financing activities. If the required disclosure is provided in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

  On February 17, 2016, the Financial Reporting Standards Council (FRSC) has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12)*. The amendments clarify that:

  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

  On February 17, 2016, the Financial Reporting Standards Council (FRSC) has adopted the Amendments to PAS 12, which will become effective for annual periods beginning on or after January 1, 2017.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates). The amendments address an inconsistency in the requirements in PFRS 10 and 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. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

The FRSC decided to postpone the effective date of 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. Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted.

4. Segment Information

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

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

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

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

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

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

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

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

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended March 31, 2016, December 31, 2015 and March 31, 2015:

	Petroleum	**Insurance**	**Leasing**	**Marketing**	**Elimination/ Others**	**Total**
March 31, 2016						
Revenue:						
External sales	**P76,293**	**P -**	**P 25**	**P564**	**(P 25)**	**P76,857**
Inter-segment sales	**30,581**	**31**	**116**	**14**	**(30,742)**	**-**
Operating income	**5,622**	**20**	**64**	**18**	**40**	**5,764**
Net income	**3,530**	**25**	**14**	**7**	**(818)**	**2,758**
Assets and liabilities:						
Segment assets	**325,422**	**2,347**	**5,304**	**841**	**(47,234)**	**286,680**
Segment liabilities	**205,549**	**1,563**	**4,113**	**328**	**(13,637)**	**197,916**
Other segment information:						
Property, plant and equipment	**155,999**	**-**	**-**	**203**	**5,064**	**161,266**
Depreciation and amortization	**2,252**	**-**	**-**	**10**	**18**	**2,280**
Interest expense and other financing charges	**1,857**	**-**	**45**	**-**	**(45)**	**1,857**
Interest income	**183**	**4**	**1**	**2**	**(45)**	**145**
Income tax expense	**719**	**7**	**7**	**1**	**(2)**	**732**

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
December 31, 2015						
Revenue:						
External sales	**P357,908**	**P -**	**P33**	**P2,270**	**(P33)**	**P360,178**
Inter-segment sales	**158,171**	**107**	**509**	**55**	**(158,842)**	**-**
Operating income	**17,048**	**78**	**256**	**83**	**669**	**18,134**
Net income	**9,349**	**103**	**97**	**87**	**(3,366)**	**6,270**
Assets and liabilities:						
Segment assets	**333,187**	**1,097**	**5,181**	**904**	**(46,313)**	**294,056**
Segment liabilities	**216,062**	**178**	**4,004**	**313**	**(14,028)**	**206,529**
Other segment information:						
Property, plant and equipment	**156,319**	**-**	**-**	**208**	**5,070**	**161,597**
Depreciation and amortization	**6,164**	**-**	**2**	**39**	**67**	**6,272**
Interest expense	**5,533**	**-**	**183**	**-**	**(183)**	**5,533**
Interest income	**846**	**15**	**1**	**7**	**(183)**	**686**
Income tax expense	**3,479**	**11**	**35**	**21**	**109**	**3,655**

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
March 31, 2015						
Revenue:						
External sales	P86,170	P -	P -	P574	P -	P86,744
Inter-segment sales	30,451	27	140	-	(30,618)	-
Operating income	2,767	14	68	23	96	2,968
Net income	158	22	33	19	25	257
Assets and liabilities:						
Segment assets	354,899	2,172	5,284	1,071	(31,618)	331,808
Segment liabilities	239,118	951	4,171	344	(15,206)	229,378
Other segment information:						
Property, plant and equipment	152,217	-	-	226	5,205	157,648
Depreciation and amortization	1,412	-	-	10	17	1,439
Interest expense and other financing charges	1,371	-	46	-	(46)	1,371
Interest income	279	3	-	2	(46)	238
Income tax expense	21	4	6	5	2	38

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended March 31, 2016, December 31, 2015 and March 31, 2015:

	Reseller	Lube	Gasul	Industrial	Others	Total
March 31, 2016						
Revenue	**P34,473**	**P1,099**	**P4,148**	**P17,385**	**P19,188**	**P76,293**
Property, plant and equipment	**19,699**	**136**	**366**	**177**	**135,622**	**156,000**
Capital expenditures	**2,420**	**1**	**77**	**80**	**2,094**	**4,672**
December 31, 2015						
Revenue	P169,179	P4,052	P18,119	P81,587	P84,971	P357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585
March 31, 2015						
Revenue	P40,647	P992	P4,699	P21,459	P18,373	P86,170
Property, plant and equipment	20,171	143	381	143	131,379	152,217
Capital expenditures	1,298	-	48	99	107,255	108,700

Geographical Segments

The following table presents segment assets of the Group as at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Local	**235,040**	P242,529
International	**51,641**	51,527
	P286,681	P294,056

The following table presents revenue information regarding the geographical segments of the Group for the periods ended March 31, 2016, December 31, 2015 and March 31, 2015:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
March 31, 2016						
Revenue:						
Local	**P44,063**	**P19**	**P141**	**P578**	**(P501)**	**P44,300**
Export/international	**62,810**	**13**	**-**	**-**	**(30,266)**	**32,557**
December 31, 2015						
Revenue:						
Local	P212,724	P57	P542	P2,325	(P2,014)	P213,634
Export/international	303,355	50	-	-	(156,861)	146,544
March 31, 2015						
Revenue:						
Local	P53,097	P19	P140	P574	(P495)	P53,335
Export/international	63,524	8	-	-	(30,123)	33,409

5. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
December 31, 2014	28,330	50,532	16,142	4,328	14,275	104,729	218,336
Additions	263	592	410	574	211	14,338	16,388
Disposals/reclassifications	726	223	707	(100)	(133)	(2,138)	(715)
Currency translation adjustment	(1,071)	(1,562)	(1,029)	(99)	(1,079)	(344)	(5,184)
December 31, 2015	**28,248**	**49,785**	**16,230**	**4,703**	**13,274**	**116,585**	**228,825**
Additions	62	148,311	98	52	140	(109,844)	38,819
Disposals/reclassifications	(2,494)	(38,859)	449	4,774	1	(2,180)	(38,309)
Currency translation adjustment	449	674	439	69	445	111	2,187
March 31, 2016	**26,265**	**159,911**	**17,216**	**9,598**	**13,860**	**4,672**	**231,522**
Accumulated depreciation and amortization:							
December 31, 2014	16,766	32,218	10,471	3,135	2,096	-	64,686
Additions	1,341	1,730	1,287	910	96	-	5,364
Disposals/reclassifications	(39)	(109)	(53)	(85)	-	-	(286)
Currency translation adjustment	(643)	(751)	(565)	(512)	(65)	-	(2,536)
December 31, 2015	**17,425**	**33,088**	**11,140**	**3,448**	**2,127**	**-**	**67,228**
Additions	263	1,154	301	232	30	-	1,980
Disposals/reclassifications	(2,335)	(2,437)	141	4,605	(4)	-	(30)
Currency translation adjustment	274	593	243	(59)	27	-	1,078
March 31, 2016	**15,627**	**32,398**	**11,825**	**8,226**	**2,180**	**-**	**70,256**
Net book value:							
December 31, 2015	P10,823	P16,697	P5,090	P1,255	P11,147	P116,585	P161,597
March 31, 2016	**P10,638**	**P127,513**	**P5,391**	**P1,372**	**P11,680**	**P4,672**	**P161,266**

Capital Commitments

As at March 31, 2016 and December 31, 2015, the Group has outstanding commitments to acquire property, plant and equipment amounting to P2,858 and P4,594, respectively.

6. Fuel Supply Contract

The Parent Company entered into various fuel supply contracts with National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM). Under these contracts, Petron supplies the bunker fuel, diesel fuel oil and engine lubricating oil requirements of selected NPC and PSALM plants, and NPC-supplied Independent Power Producers (IPP) plants.

As of March 31, 2016, the following are the fuel supply contracts granted to the Parent Company:

NPC

	Date of	Contract	Volume in KL			Contract Price		
Bid Date	Award	Duration	DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Dec. 19, 2014	Jan. 20, 2015	NPC Jomalig DP & Others (Jan.-Dec. 2015 with 6 months extension)	5,936			242		
Dec. 19, 2014	Feb. 2, 2015	NPC Boac DP & Others (Jan.-Dec. 2015 with 6 months extension)	10,087			406		

Jul. 10, 2015	Aug 7, 2015	NPC ELO Basco DP & Others (Jul-Dec 2015 with 6 months extension			61			5
Sep 7, 2015	Sep 7, 2015	NPC ELO Jolo DP & Others (Sep.-Dec. 2015 with 6 months extension)			119			12
Sep 7, 2015	Sep 7, 2015	NPC ELO PB 106 DP & Others (Sep.-Dec. 2015 with 6 months extension)			325			30
Dec 8, 2015	Feb 12, 2016	NPC PB 106 DP & Others (Feb.-Dec. 2016 with 6 months extension)	74,917			1,807		
Dec 8, 2015	Jan 6, 2016	NPC Diesel Oil for Western Mindanao (Feb-Dec 2016 with 6 months extension)	32,927			766		
Dec 8, 2015	Jan 6, 2016	NPC Diesel Oil for Western Mindanao (Feb-Dec 2016 with 6 months extension)			507			50

PSALM

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	**IFO***	**ELO***	**DFO***	**IFO***	**ELO***
May 19, 2015	June 15, 2015	Malaya Thermal (June-December 2015 with 6 monts extension)		25,101			541	
May 19, 2015	June 15, 2015	SPPC (June-December 2015 with 6 months extension)		348			7	
May 19, 2015	June 15, 2015	WMPC June-December 2015 with 6 monts extension)		40,504			849	
July 2, 2015	Sep 2, 2015	Power Barge 104 (July-December 2015 with 6 monts extension)		49			1	
July 24, 2015	Sep 2, 2015	Power Barge 104 (August-December 2015 with 6 months extension)			1,501			135

* *IFO = Industrial Fuel Oil*
DFO = Diesel Fuel Oil
ELO= Engine Lubricating Oil
KL = Kilo Liters

7. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint venture and SMC and its subsidiaries, in the normal course of business, purchase products and services from one another.

The balances and transactions with related parties as of and for the periods ended March 31, 2016 and December 31, 2015 follow:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plan	*a*	**2016**	**P74**	**P -**	**P6,642**	**P -**	On demand/ long-term; Interest bearing	Unsecured; No impairment
		2015	297	-	6,597	-		
Intermediate Parent	*e*	**2016**	**-**	**40**	**3**	**17**	On demand; Non-interest bearing	Unsecured; No Impairment
		2015	9	74	3	35		
Under common control	*b,c,d*	**2016**	**813**	**3,267**	**931**	**1,736**	On demand; Non-interest bearing	Unsecured; No Impairment
		2015	3,587	14,504	975	1,682		
Associate	*b*	**2016**	**-**	**-**	**-**	**-**	On demand; Non-interest bearing	Unsecured; No Impairment
		2015	143	-	31	-		
Joint venture	*c*	**2016**	**-**	**20**	**-**	**34**	On demand; Non-interest bearing	Unsecured; No impairment
		2015	-	95	-	2		
		2016	**P887**	**P3,327**	**P7,576**	**P1,787**		
		2015	P4,036	P14,673	P7,606	P1,719		

a. As of March 31, 2016 and December 31, 2015, the Parent Company has interest bearing advances to PCERP, included as part of "Other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position, for some investment opportunities.

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

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6.91. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.

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

f. Amounts owed by related parties consist of trade, non-trade receivables, advances and security deposits. These are to be settled in cash.

g. Amounts owed to related parties consist of trade and non-trade payables. These are to be settled in cash.

8. Loans and Borrowings

Short-term Loans

The movements of short-term loans for the nine months ended March 31, 2016 follow:

Balance as of January 1, 2016	**P99,481**
Loan availments	**53,850**
Loan repayments	**(68,835)**
Translation adjustment	**101**
Balance as of March 31, 2016	**P84,597**

Average interest rates and maturities for these loans are consistent with those reported as of December 31, 2015.

9. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include cash and cash equivalents, debt and equity securities, bank loans and derivative instruments. The main purpose of bank loans is to finance working capital relating to importation of crude and petroleum products, as well as for other general corporate purposes. 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 with special duties. These units and their functions are:

a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

b. The Financial Risk Management Unit of the Treasurer's Department, which is in charge of foreign currency hedging transactions.

c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.

d. The Corporate Technical & Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.

e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the Board, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.

g. Petron Singapore Trading Pte Ltd. (PSTPL) executes the hedging transactions involving crude and product imports on behalf of the Group.

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

a. The Audit and Risk Management Committee ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

b. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD through the Audit and Risk Management Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual.

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

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

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

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

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

	March 31, 2016		December 31, 2015	
	US Dollar	**Phil. Peso Equivalent**	US dollar	Phil. Peso Equivalent
Assets				
Cash and cash equivalents	**236**	**10,841**	287	13,510
Trade and other receivables	**153**	**7,061**	165	7,788
Other assets	**38**	**1,757**	46	2,157
	427	**19,659**	498	23,455
Liabilities				
Short-term loans	**262**	**12,084**	326	15,351
Liabilities for crude oil and petroleum product importation	**349**	**16,103**	284	13,380
Long-term debts (including current maturities)	**926**	**42,655**	959	45,153
Other liabilities	**137**	**6,298**	78	3,658
	1,674	**77,140**	1,647	77,542
Net foreign currency - denominated monetary liabilities	**(1,247)**	**(57,481)**	(1,149)	(54,087)

The Group incurred net foreign currency gains amounting to P1,421 and foreign currency losses amounting to P431 for the period ended March 31, 2016 and March 31, 2015, respectively which were mainly countered by marked-to-market and hedging gains (losses) (Note 10). The foreign currency rates from Philippine peso (Php) to US dollar (US$) as of reporting dates are shown in the following table:

	Peso to US Dollar
March 31, 2016	**46.070**
December 31, 2015	47.060
March 31, 2015	44.700

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign currency exchange movements affect reported equity in the following ways:

- through the retained earnings arising from increases or decreases in unrealized and realized foreign currency gains or losses; and

- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of profit before tax and equity as of March 31, 2016 and December 31, 2015:

March 31, 2016	P1 Decrease in the US Dollar Exchange Rate: Effect on Income Before Income Tax	Effect on Equity	P1 Increase in the US Dollar Exchange Rate: Effect on Income Before Income Tax	Effect on Equity
Cash and cash equivalents	**(P76)**	**(P213)**	**P76**	**P213**
Trade and other receivables	**(56)**	**(136)**	**56**	**136**
Other assets	**(32)**	**(28)**	**32**	**28**
	(164)	**(377)**	**164**	**377**
Short-term loans	**200**	**202**	**(200)**	**(202)**
Liabilities for crude oil and petroleum product importation	**187**	**293**	**(187)**	**(293)**
Long-term debts (including current maturities)	**850**	**671**	**(850)**	**(671)**
Other liabilities	**25**	**129**	**(25)**	**(129)**
	1,262	**1,295**	**(1,262)**	**(1,295)**
	P1,098	**P918**	**(P1,098)**	**(P918)**

December 31, 2015	P1 Decrease in the US dollar Exchange Rate: Effect on Income before Income Tax	Effect on Equity	P1 Increase in the US dollar Exchange Rate: Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P154)	(P241)	P154	P241
Trade and other receivables	(84)	(140)	84	140
Other assets	(34)	(36)	34	36
	(272)	(417)	272	417
Short-term loans	240	254	(240)	(254)
Liabilities for crude oil and petroleum product importation	130	245	(130)	(245)
Long-term debts (including current maturities)	890	692	(890)	(692)
Other liabilities	12	74	(12)	(74)
	1,272	1,265	(1,272)	(1,265)
	P1,000	P848	(P1,000)	(P848)

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's long-term borrowings and investment securities. Investments acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest costs by using a combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the marked-up rates levied on its borrowings are most favorable and benchmarked against the interest rates charged by other creditor banks.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in the Group's 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 the Group 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 P427 and P452 for the period ended March 31, 2016 and for the year ended December 31, 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of March 31, 2016 and December 31, 2015, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

March 31, 2016	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso denominated	**P36**	**P20,286**	**P1,678**	**P1,029**	**P1,029**	**P4,398**	**P28,456**
Interest rate	**6.3% - 7.2%**	**5.5% - 7.2%**	**5.5% - 7.2%**	**5.5% - 7.2%**	**5.5% - 7.2%**	**5.5% - 7.2%**	
Floating Rate							
Malaysian ringgit denominated (expressed in PhP)	**975**	**1,171**	**1,171**	**196**	**-**	**-**	**3,513**
Interest rate	**1.5%+COF**	**1.5%+COF**	**1.5%+COF**	**1.5%+COF**			
US$ denominated (expressed in Php)	**-**	**8,062**	**13,492**	**10,366**	**7,240**	**-**	**39,160**
Interest rate*		**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**		
	P1,011	**P29,519**	**P16,341**	**P11,591**	**P8,269**	**P4,398**	**P71,129**

**The group reprices every 3 months but has been given an option to reprice every 1 or 6 months.*

December 31, 2015	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P36	P20,036	P1,678	P1,029	P1,029	P4,648	P28,456
Interest rate	6.3% - 7.2%	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	
Floating Rate							
Malaysian ringgit denominated (expressed in PhP)	639	1,096	1,096	458	-	-	3,289
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF	1.5%+COF			
US$ denominated (expressed in PhP)	33	10,085	13,782	10,588	7,395	-	41,883
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin		
	P708	P31,217	P16,556	P12,075	P8,424	P4,648	P73,628

**The group reprices every 3 months but has been given an option to reprice every 1 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:

	March 31, 2016	December 31, 2015
Cash in bank and cash equivalents (net of cash on hand)	**P12,895**	P16,852
Derivative assets	**153**	362
Available-for-sale financial assets	**409**	621
Trade and other receivables - net	**27,109**	30,749
Due from related parties	**1,787**	1,816
Long-term receivables - net	**201**	189
Noncurrent deposits	**86**	82
	P42,640	P50,671

The credit risk for cash in bank and cash equivalents and derivative financial instruments is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of these financial assets is considered to be high grade.

In monitoring trade receivables and credit lines, the Group maintains up-to-date records where daily sales and collection transactions of all customers are recorded in real-time and month-end statements of accounts are forwarded to customers as collection medium. Finance Division's Credit Department regularly reports to management trade receivables balances (monthly), past due accounts (weekly) and credit utilization efficiency (semi-annually).

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds and cash deposits valued at P4,192 and PP4,070 as March 31, 2016 and December 31, 2015, respectively. These securities may only be called on or applied upon default of customers.

Credit Risk Concentration. The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any guarantee in favor of any counterparty.

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of the 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.

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

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

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

The table below summarizes the maturity profile of the Group’s financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of March 31, 2016 and December 31, 2015:

March 31, 2016	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P14,078**	**P14,078**	**P14,078**	**P -**	**P -**	**P -**
Trade and other receivables - net	**27,109**	**27,109**	**27,109**	**-**	**-**	**-**
Due from related parties	**1,787**	**1,787**	**-**	**1,787**	**-**	**-**
Derivative assets	**153**	**153**	**153**	**-**	**-**	**-**
Financial assets at FVPL	**149**	**149**	**149**	**-**	**-**	**-**
AFS financial assets	**409**	**450**	**45**	**67**	**211**	**127**
Long-term receivables - net	**201**	**291**	**-**	**-**	**-**	**291**
Noncurrent deposits	**86**	**87**	**-**	**3**	**11**	**73**
Financial Liabilities						
Short-term loans	**84,597**	**84,993**	**84,993**	**-**	**-**	**-**
Liabilities for crude oil and petroleum product importation	**19,292**	**19,292**	**19,292**	**-**	**-**	**-**
Trade and other payables (excluding dividends payable, taxes payable and retirement benefits liability)	**11,127**	**11,127**	**11,127**	**-**	**-**	**-**
Derivative liabilities	**932**	**932**	**932**	**-**	**-**	**-**
Long-term debts (including current maturities)	**70,034**	**79,728**	**4,343**	**36,127**	**34,569**	**4,689**
Cash bonds	**381**	**389**	**-**	**368**	**4**	**17**
Cylinder deposits	**520**	**520**	**-**	**-**	**-**	**525**
Other noncurrent liabilities	**64**	**64**	**-**	**-**	**3**	**61**

December 31, 2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P18,881	P18,881	P18,881	P -	P -	P -
Trade and other receivables	30,749	30,749	30,749	-	-	-
Due from related parties	1,816	1,816	-	1,816	-	-
Derivative assets	362	362	362	-	-	-
Financial assets at FVPL	147	147	147	-	-	-
AFS financial assets	621	657	253	68	209	127
Long-term receivables - net	189	272	-	-	272	-
Noncurrent deposits	82	83	-	5	9	69
Financial Liabilities						
Short-term loans	99,481	100,126	100,126	-	-	-
Liabilities for crude oil and petroleum product importation	16,271	16,271	16,271	-	-	-
Accounts payable and accrued expenses (excluding specific taxes and other taxes payable and retirement benefits liability)	7,401	7,401	7,401	-	-	-
Derivative liabilities	603	603	603	-	-	-
Long-term debts (including current maturities)	72,420	82,675	4,077	34,306	39,324	4,968
Cash bonds	382	388	-	367	4	17
Cylinder deposits	454	454	-	-	-	454
Other noncurrent liabilities	70	70	-	-	-	70
2015						

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from risks of downward price and squeezed margins. Hedging policy (including the use of commodity price swaps, time-spreads, put options, collars and 3-way options) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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

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

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

	March 31, 2016	December 31, 2015
Total assets	**P286,925**	P294,267
Total liabilities	**202,545**	211,167
Total equity	**84,380**	83,100
Debt to equity ratio	**2.4:1**	2.5:1
Assets to equity ratio	**3.4:1**	3.5:1

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

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

10. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts and embedded derivatives are recognized under the caption marked-to-market gains (losses) included as part of "Other income (expenses)" in the consolidated statements of income. Unrealized gains or losses from changes in fair value of commodity price swaps are recognized under the caption hedging gains - net included as part of "Other income (expenses)" in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized under "Others" included as part of "Cost of goods sold" 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 financial assets at FVPL and derivative assets are included in 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 measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" in 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 integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" 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 with varying maturities between one day and three months, 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 in this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the consolidated 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 "AFS" 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 the consolidated statements of income.

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

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate 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 product importation, trade and other payables, long-term debt, cash bonds, cylinder deposits and other non-current liabilities are included in this category.

Debt Issue Costs
Debt issue costs are considered as directly attributable transaction cost upon initial measurement of the related debt and subsequently considered in the calculation of amortized cost using the effective interest method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Debt and Equity
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

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

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

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

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	**P14,078**	**P14,078**	P18,881	P18,881
Trade and other receivables - net	**27,109**	**27,109**	30,749	30,749
Due from related parties	**1,787**	**1,787**	1,816	1,816
Long-term receivables - net	**201**	**201**	189	189
Noncurrent deposits	**86**	**86**	82	82
Loans and receivables	**43,261**	**43,261**	51,717	51,717
AFS financial assets	**409**	**409**	621	621
Financial assets at FVPL	**149**	**149**	147	147
Derivative assets	**153**	**153**	362	362
FA at FVPL	**302**	**302**	509	509
Total financial assets	**P43,972**	**P43,972**	P52,847	P52,847

	March 31, 2016		December 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):				
Short-term loans	**P84,597**	**P84,597**	P99,481	P99,481
Liabilities for crude oil and petroleum product importation	**19,292**	**19,292**	16,271	16,271
Trade and other payables (excluding taxes payable and retirement benefits liability)	**11,127**	**11,127**	7,401	7,401
Long-term debt (including current portion)	**70,034**	**70,034**	72,420	72,420
Cash bonds	**381**	**381**	382	382
Cylinder deposits	**520**	**520**	454	454
Other noncurrent liabilities	**64**	**64**	70	70
FL at amortized cost	**186,015**	**186,015**	196,479	196,479
Derivative liabilities	**932**	**932**	603	603
Total financial liabilities	**P186,947**	**P186,947**	P197,082	P197,082

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Long-term Receivables and Noncurrent Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables and noncurrent deposits, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges are based on forecasted crude and product prices by third parties.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on published market prices. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Long-term Debt - Floating Rate. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the market rates for similar types of instruments as of reporting date.

Short-term Loans, Liabilities for Crude Oil and Petroleum Product Importation and Trade and Other Payables. The carrying amount of short-term loans, liabilities for crude oil and petroleum product importation 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 derivatives entered into by the Group.

Currency Forwards
As of March 31, 2016 and December 31, 2015, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,109 and US$1,013 respectively and with various maturities in 2016. As of March 31, 2016 and December 31, 2015 the net fair value of these currency forwards amounted to (P733) and (P202), respectively.

Commodity Swaps
The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2016. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 9.2 and 10.9 million barrels as at March 31, 2016 and December 31, 2015, respectively. The estimated net pay-outs for these transactions amounted to P46 and P39 as of March 31, 2016 and December 31, 2015, respectively.

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

As of March 31, 2016 the total outstanding notional amount of currency forwards embedded in non financial contracts is none while in December 31, 2015 the figure is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of March 31, 2016 and December 31, 2015, the net fair value of these embedded currency forwards is minimal.

For the periods ended March 31, 2016 and December 31, 2015, the Group recognized marked-to-market gains(losses) from freestanding and embedded derivatives amounting to (P442) and P2.3, respectively.

Fair Value Measurements

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

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 absence of a principal market, in most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial

statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2015 and 2014. The different levels have been defined as follows:

March 31, 2016	**Level 1**	**Level 2**	**Total**
Financial Assets:			
FVPL	**P -**	**P149**	**P149**
Derivative assets	**-**	**153**	**153**
AFS financial assets	**73**	**336**	**409**
Financial Liabilities:			
Derivative liabilities	**-**	**(932)**	**(932)**

2015	**Level 1**	**Level 2**	**Total**
Financial Assets:			
FVPL	**P -**	**P147**	**P147**
Derivative assets	**-**	**362**	**362**
AFS financial assets	**71**	**550**	**621**
Financial Liabilities:			
Derivative liabilities	**-**	**(603)**	**(603)**

The Group has no financial instruments valued based on Level 3 as of March 31, 2016 and December 31, 2015. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

11. Significant Transactions During the Period

a. On February 6, 2016, the Parent Company paid distributions amounting to US$28.125 million (P1,919) to the holders of USCS.

b. On March 18, 2016, Parent Company subscribed to an additional 43,125,482 shares of PAHL for a total of P1,291. Petron’s ownership interest to PAHL has increased from 47.25% to 50.26%.

c. On March 31, 2016, the Parent Company made a partial payment of US$40 million on $475 million Term Loan facility.

12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the three months ended March 31, 2016 and 2014 are computed as follows:

	2016	2015
Net income attributable to equity holders of the Parent Company	**P2,725**	P77
Dividends on preferred shares for the period	**162**	162
Distributions paid to the holders of USCS	**959**	885
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P1,604**	(P970)

Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375
Basic and diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**P0.17**	(P0.10)

As at March 31, 2016 and December 31, 2015, the Group has no dilutive debt or equity instruments.

13. Dividends

a. On March 15, 2016, the BOD of the Parent Company approved cash dividends for common and Series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 31, 2016	April 14, 2016
Series 2A	15.75000	April 15, 2016	May 3, 2016
Series 2B	17.14575	April 15, 2016	May 3, 2016
Series 2A	15.75000	July 15, 2016	August 3, 2016
Series 2B	17.14575	July 15, 2016	August 3, 2016

14. Commitments and Contingencies

Supply and Lease Agreements

The Parent Company assigned all its rights and obligations to Petron Singapore Trading Pte. Ltd. (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. The contract is for a period of one year from November 1, 2013 to December 31, 2014 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days' written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated statements of financial position as of March 31, 2016 and December 31, 2015.

On September 30, 2009, New Ventures Realty Corporation (NVRC) entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which is being used as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises 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 March 31, 206, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has unused letters of credit totaling approximately P10,612 and P28,799 as of March 31, 2016 and December 31, 2015, respectively.

Tax Credit Certificates-Related Matters

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

Pandacan Terminal Operations

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

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

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

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

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Parent Company filed with the

RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. The parties have filed their respective briefs. As of March 31, 2016, the appeal remained pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

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

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 March 31, 2016.

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.

15. Events After the Reporting Period

On May 5, 2016, the Board of Directors approved the reversal of the P25 billion appropriation for the Refinery Master Plan - Phase 2_and the re-appropriation of P15 billion to fund major investments and maintenance projects scheduled for 2016 and 2017.

16. Other Matters

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

b. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2016.

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

Gross Domestic Product (GDP)

Philippine economic growth decelerated in 2015 but remains healthy. GDP expanded year-on-year by 5.8% in 2015, slower than the 6.1% growth rate in 2014. The growth was driven by strong domestic demand, led by robust household consumption, and supported by higher level of investments and increase in government expenditure. The growth on the supply side was mainly attributed to the services and industry sectors.

By industrial origin, services (about 57% of GDP) posted the highest growth at 6.7%, driven by real estate, renting & business activities, and trade. Industry, which accounts for 33% of GDP grew by 6.0 %. Manufacturing and construction contributed the most to Industry sector expansion. Agriculture remained at relatively the same level with a growth rate of 0.2%.

By type of expenditure, capital formation grew the fastest with 13.6% growth supported by investments in durable equipment and construction. Government expenditure follows with 9.4% growth, underpinned by increase in disbursement for social protection programs, infrastructure projects and other capital outlays. Household consumption grew by 6.2% with improved employment, low inflation and continued support from OFW remittances. Total exports declined with mild growth in exports of goods. However, exports in services or the BPO sector has shown a robust performance.

In terms of full-year growth, the Philippines ranked fourth among major countries in Asia, next to India, China and Vietnam.

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

91-day T-Bill rates averaged 1.56% in 1Q 2016, lower compared to 1.70% in 4Q 2015, but higher than 1.47% in 1Q 2015. The US Federal Reserve's move to raise interest rates by 25 basis points last December 16, 2015 for the first time in almost a decade resulted in more expensive credit across the globe.

Peso-Dollar Exchange Rate

In 1Q 2016, the peso weakened by 6.39% to average Php47.26/US$ in 1Q 2016, from Php44.42 /US$ in the same period last year. The weakness was due in large part to market jitters caused by uncertainties over the presidential elections on May 9.

Inflation

The rate of increase in prices of commodities and services decelerated in 1Q 2016, slowing down to an average of 1.1% from 2.4% in 1Q 2015. The low inflation was due to lower prices for food (e.g., corn, oil and rice), fuel and more affordable prices of housing and other utilities.

Industry Oil Demand

Oil demand[1] remained robust and grew about by 11 % from 331MBD in 2014 to 369MBD in 2015. The growth in demand was supported by low retail oil prices encouraging travel, strong vehicle sales at almost 23% growth in 2015, favorable business environment contributing to the growth of industrial sectors which are heavy oil users, such as manufacturing and construction.

Oil Market

Oil prices continued to fall in 1Q 2016. Crude prices further plunged in 1Q 2016 with Dubai dropping to a low of about $22/bbl in January. Dubai averaged $30.6/bbl in 1Q 2016, 41% lower than 1Q 2015 average of $51.8/bbl. Crude oversupply due to sustained high OPEC production and high crude inventories, coupled with easing global demand vs. 4Q 2015 pulled down prices.

On the other hand, product cracks moved in different directions. Gasoline strengthened as demand was robust due to low retail prices. LPG also gained strength supported by strong demand from residential and petchem sectors, an effect of weak LPG prices. Meanwhile, middle distillates kero/jet and diesel weakened in 1Q 2016 due to lacklustre demand in Asia amid higher regional supplies with the coming on-stream of new middle distillate-focused conversion capacities.

Existing or Probable Government Regulation

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

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

[1] Based on DOE data. Includes only Gasoline, Kerosene, Avturbo, Diesel, IFO and LPG. Does not include Solvents, Asphalts, Avgas, Petchem, Naphtha and Condensate.

Renewable Energy Act of 2008 (the "Renewable Energy Act"). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind) through various tax incentives. Renewable energy developers will be given a seven (7)-year income tax holiday. The power generated from these sources will be VAT-exempt and facilities to be used or imported will also have tax incentives.

Compliance with Euro 4 standards. In September 2010, the DENR issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015 - 06-0004 entitled "Implementing the Corresponding Philippine National Standard Specifications (PNS) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions" directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is now producing Euro 4-compliant fuels ahead of the 2016 mandate.

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

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

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

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

Anti-Competition Law (the "Philippine Competition Act")

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

Cabotage Law

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

PETRON CORPORATION AND SUBSIDIARIES
RECEIVABLES
As of March 31, 2016
(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	**P14,151**
Accounts Receivable – Non-Trade	12,958
Total Accounts Receivable	**P27,109**

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P13,747
	31 – 60 days	164
	61 – 90 days	59
	Over 90 days	997
Total		**14,967**
Allowance for doubtful accounts		816
Accounts Receivable – Trade		**P14,151**

Interim Financial Report as of March 31, 2016

Management's Discussion and Analysis of Financial Position and Performance

Financial Performance

2016 vs 2015

			Variance- Fav (Unfav)	
(In Million Pesos)	**2016**	**2015**	**Amt**	**%**
Sales	**76,857**	**86,744**	**(9,887)**	**(11)**
Cost of Goods Sold	**67,915**	**80,987**	**(13,072)**	**16**
Gross Margin	**8,942**	**5,757**	**3,185**	**55**
Selling and Administrative Expenses	**3,178**	**2,789**	**389**	**(14)**
Non-operating Charges	**2,274**	**2,673**	**399**	**15**
Net Income	**2,758**	**257**	**2,501**	**high**
EBITDA	**7,931**	**3,401**	**4,530**	**high**
Sales Volume (MB)	**25,347**	**23,203**	**2,144**	**9**
Earnings (Loss) per Share (₱)	**0.17**	**(0.10)**	**0.27**	**high**
Return on Sales (%)	**3.6**	**0.3**	**3.3**	**high**

Despite the continued decline in global oil prices, Petron Corporation posted a consolidated net income of **₱ 2.76 billion** in the first quarter of 2016, more than tenfold of previous year's ₱ 257 million profit primarily due to surge in sales volumes, improved margins and effective risk management.

The first quarter 2016 strong results of operation vis-a-vis 2015 are due to the following:

- **Consolidated Sales volume** surged by 9% to **25.3 million barrels (MMB)** from previous year's 23.2 MMB. The 2.1 MMB growth came from the combined Philippine and Malaysian operations. In the Philippines, sales to domestic customers grew by 4%, mainly on account of the 6% growth in Retail, 4% in the LPG business, and 6% in Supply sales. Export sales exhibited the largest growth at 31% mostly from sale of gasoline. On a per product basis, gasoline and diesel sales showed the most significant improvement both at 25%. Meanwhile, Malaysian operations registered a 9% and 38% growth in its domestic and export sales, respectively, on account of higher gasoline, Naphtha and LSWR sales.

- **Net sales** plunged by 11% or **₱** 9.89 billion to **₱ 76.86 billion** prompted by the continued drop in selling prices as benchmark regional market prices of finished products fell along with the slump in global crude oil prices. During the period, reference crude Dubai averaged US$30/bbl, a 41% drop from US$52/bbl in 1Q2015. The decline in revenues from the lower selling prices was partially tempered by the growth in sales volume.

- **Cost of Goods Sold (CGS)** fell more by 16% to **₱ 67.92 billion** from last year's **₱** 80.99 billion, still attributed to the cheaper cost of crude and imported products. Gross margins increased mainly due to the reduction in cost coupled by lower inventory losses.

- Meanwhile, **Selling and Administrative Expenses (OPEX)** of **₱ 3.18 billion** exceeded the **₱** 2.79 billion incurred in 1Q2015 due to various promotion and advertising activities, higher terminalling fees as a result of incremental sales volume, and increase in rental expenses.

- **Net Financing Costs and Other Charges** eased by **₱ 0.40 billion** to **₱ 2.27 billion** from ₱ 2.67 billion last year mainly due to the reversal of marked-to-market (MTM) losses on outstanding commodity hedge positions during the period, lower financing cost as a result of reduced borrowing level and interest rate, tempered by the absence of capitalized interest from RMP2 project financing which is now in commercial operation.

- **Income tax expense** swelled to **₱ 0.73 billion** as against **₱ 0.04** billion in the same period last year resulting from higher operating income and dividends from foreign subsidiaries moderated by the recognition of income tax holiday benefit of the RMP2 project.

2015 vs 2014

Petron Corporation posted a consolidated net income of **₱ 0.26 billion** for the first quarter of 2015, significantly lower compared to the ₱ 2.23 billion reported during the same period in 2014. The Company continued to incur inventory losses as crude prices plunged by another US$15/bbl in January 2015 from December 2014 level. Lower margin was further reduced by the increase in non-operating charges.

			Variance- Fav (Unfav)	
(In Million Pesos)	2015	2014	Amt	%
Sales	86,744	125,174	(38,430)	(31)
Cost of Goods Sold	80,987	118,924	37,937	32
Gross Margin	5,757	6,250	(493)	(8)
Selling and Administrative Expenses	2,789	2,733	(56)	(2)
Non-operating Charges	2,673	482	(2,191)	(high)
Net Income	257	2,225	(1,968)	(88)
EBITDA	3,401	5,430	(2,029)	(37)
Sales Volume (MB)	23,203	20,766	2,437	12
Earnings (Loss) per Share (₱)	(0.10)	0.12	(0.22)	(high)
Return on Sales (%)	0.3	1.8	(1.5)	(83)

Similarly, **earnings before interest, taxes, depreciation and amortization (EBITDA)** of **₱ 3.40 billion** stood 37% below the ₱ 5.43 billion level recorded a year ago; while **return on sales** slid to **0.3%** from 1.8%. This quarter's payment of distributions to holders of undated subordinated capital securities resulted in **₱ 0.10 loss per share** to common shareholders.

The first quarter performance was highlighted by the following:

- **Sales volume** grew by 2.4 million barrels (MMB) or 12% and reached **23.2 MMB** with Philippine operations leading the growth. Petron Philippines (PP) volumes stood at 14.6 MMB, 23% ahead from last year due to improved gasoline and diesel sales driven by strong retail volume and increased trading transactions with competitors. LPG business and exports of petrochemicals also grew by 325 MB and 281 MB, respectively. Increases were toned down by the strategic reduction in sales of fuel oil.

- **Net sales** dipped by 31% or ₱ 38.43 billion to **₱ 86.74 billion** primarily on account of lower selling prices as regional market prices of finished products fell along with the weakened global crude oil prices. During this period, reference crude Dubai averaged US$52/bbl, only half of the US$104/bbl average in same quarter last year. The decline in selling prices, however, was tempered by the 12% increase in sales volume.

- Similarly, **Cost of Goods Sold (CGS)** went down to **₱ 80.99 billion** from last year's ₱ 118.92 billion, or by 32% due to the cheaper cost of crude and imported products that formed part of CGS, partly offset by the cost of higher sales volume.

- **Selling and Administrative Expenses (OPEX)** amounted to **₱ 2.79 billion,** barely 2% lower than 2014's ₱ 2.73 billion brought about by the decrease in advertising expenses at the back of higher LPG cylinder purchases and terminal fee resulting from move-out from Pandacan Terminal. **Consolidated OPEX per liter** of volume sold was lower by ₱ 0.07 at **₱ 0.76**.

- **Net Financing Costs and Other Charges** climbed to **₱ 2.67 billion** or by ₱ 2.19 billion largely due to marked-to-market losses on outstanding commodity hedges during the quarter (vs gain in 2014), aggravated by the net foreign exchange losses on US dollar-denominated transactions, increased hedging costs, higher interest expense amid lower interest income.

Financial Position

2016 vs 2015

As of March 31, 2016, Petron's **consolidated assets** stood at **₱ 286.93 billion**, **2%** or **₱ 7.34 billion** lower than the ₱ 294.27 billion level as at end-December 2015 largely due to the decreases in cash and cash equivalents, trade and other receivables.

Cash and cash equivalents was reduced by 25% or ₱ 4.80 billion to **₱ 14.08 billion** with cash generated from operations partially covering the total payments for loans, interest, dividends and distributions.

Financial assets at fair value through profit or loss declined by 41% to close at **₱ 302 million** brought about by lower gains on outstanding commodity hedges.

Trade and other receivables - net dipped to **₱ 27.11 billion**, or by ₱ 3.64 billion due to collection of export sales receivable and matured hedges.

Inventories increased by 5% (₱ 1.63 billion) to **₱ 32.46 billion** due to higher volume of crude and finished products, tempered by lower price of finished products.

Available-for-sale financial assets (current and non-current) of **₱ 409 million** dropped by 34% (₱ 212 million) traced mainly to the matured corporate bonds and government securities held by insurance subsidiaries.

Deferred tax assets grew by 16% to **₱ 245 million** on account of the increase in net operating loss carry-over of Petron Malaysia.

Goodwill rose by 7% to **₱ 8.20 billion** prompted by the strengthening of the Malaysian Ringgit against the US Dollar.

Short-term loans and **liabilities for crude oil and petroleum product importation** decreased by 10% from ₱ 115.75 billion to **₱ 103.89 billion** owing to settlement of loans, partly offset by the increase in liabilities for crude oil and petroleum product importation due to higher volume.

Trade and other payables of **₱ 14.52 billion** went up by 55% (₱ 5.17 billion) attributed to higher sales tax payable to the government of Malaysia, increase in dividends payable following the declaration on March 15, 2016, and higher reinsurance and matured hedge liabilities.

Derivative liabilities of **₱ 932 million** exceeded the end-December 2015 balance of ₱ 603 million by 55% due to higher marked-to-market loss on outstanding foreign currency hedges; partly toned down by lower loss on outstanding commodity hedges.

Given the lower earnings of Petron Malaysia**, Income tax payable** dropped to **₱ 112 million** from ₱ 183 million as of end December 2015.

Other noncurrent liabilities of **₱ 964 million** stood higher by 6% **or** ₱ 58 million essentially on account of the increase in cylinder deposits triggered by the new LPG customers.

Other reserves of negative **₱ 4.74 billion** improved by 15% from the negative ₱ 5.56 billion as of end-December 2015 due to currency translation gains on equity in foreign subsidiaries.

Non-controlling interests (NCI) increased from ₱ 0.47 billion to **₱ 1.38 billion** brought about by the recognition of foreign currency translation gains during the period attributable to minority interest.

2015 vs 2014

Petron's **consolidated assets as of March 31, 2015** reached **₱ 332.01 billion**, **15%** or **₱ 59.31 billion** lower compared to end-December 2014 level of ₱ 391.32 billion brought about by the reduction in cash and cash equivalents, inventories, and trade and other receivables, partly offset by the increase in property, plant and equipment.

Cash and cash equivalents stood lower by more than half (51% or ₱ 45.93 billion) to close at **₱ 44.67 billion.** Funds were used to pay short-term loans, dividends and interest as well as in redeeming the Company's preferred shares issued in 2010.

Financial assets at fair value through profit or loss showed a 41% reduction (₱ 665 million) to **₱ 967 million** emanated from lower marked-to-market gain on outstanding commodity hedges.

Available-for-sale financial assets (current and non-current) posted a 45% reduction (₱ 394 million) from ₱ 881 million to **₱ 487 million** triggered by the maturity of government bonds of insurance subsidiaries.

Trade and other receivables-net of **₱ 40.36 billion** went down by 17% (₱ 7.98 billion) with the collection of value-added tax (VAT) claims and advances to crude supplier.

Inventories dropped by 24% (or ₱ 12.59 billion) from ₱ 53.18 billion in December 2014 to **₱ 40.59 billion** in March 2015 largely due to lower volume of crude and finished product of PP.

Other current assets recorded a 19% increase or ₱ 4.63 billion to **₱ 29.48 billion** mainly owing to unutilized VAT credit certificates of Petron Philippines (PP).

Investment in shares of stock of an associate increased by 47% (₱ 547 million) to **₱ 1.71 billion** boosted by the additional investment in and the share in net income from the Company's lone associate, Manila North Harbour Port, Inc. (MNHPI).

Deferred tax assets slid to **₱ 205 million** (by ₱ 37 million or 15%) prompted by the reversal of the expired Net Operating Loss Carry-Over (NOLCO) of a subsidiary.

The continuous depreciation of the Malaysian ringgit versus the US dollar resulted to the 6% (₱ 507 million) decline in **goodwill** from ₱ 8.92 billion to **₱ 8.41 billion.**

Other noncurrent assets-net of **₱ 7.38 billion** registered a 5% reduction (by ₱ 378 million) primarily due to the amortization of PM's long term prepaid expenses.

Short-term loans and **liabilities for crude oil and petroleum product importation** summed-up to **₱ 130.37 billion**, 17% or ₱ 27.05 billion lower than the ₱ 157.42 billion in December 2014 due to net settlement of short-term loans.

Trade and other payables declined to **₱ 20.74 billion** (by 47% or ₱ 18.40 billion) mainly attributed to payments made to various contractors and suppliers.

Derivative liabilities significantly moved up from ₱ 98 million to **₱ 291 million** traced to higher marked-to-market loss on outstanding commodity hedges.

Income tax payable grew by 22% or ₱ 16 million to **₱ 89 million** brought about by higher taxes payable of PSTPL, NVRC and PMC.

Other noncurrent liabilities of **₱ 1.89 billion** rose by 37% (₱ 514 million) due to additional cash bond received from customers.

During the quarter, the redemption of the company's preferred shares issued in 2010 resulted to the recognition of **Treasury Stock** of **₱ 10.00 billion.**

Other reserves amounted to **negative ₱ 3.61 billion**, 68% (₱ 1.46 billion) higher than the end-December 2014 level of negative ₱ 2.15 billion as a result of the movement in foreign exchange translation related to the Company's investment in foreign subsidiaries.

Cash Flows

Cash generated from operations after payment of interests and taxes amounted to **₱ 14.74 billion**. Meanwhile, investing activities pertaining to network expansions and related maintenance used up minimal cash, while cash spent on financing activities included payment of loans, interest, dividends and distributions.

In Million Pesos	**March 31, 2016**	**March 31, 2015**	**Change**
Operating inflows/(outflows)	14,739	(1,363)	16,102
Investing outflows	(437)	(6,276)	5,839
Financing outflows	(18,888)	(38,230)	19,342

Discussion of the company's key performance indicators:

Ratio	**March 31, 2016**	**December 31, 2015**
Current Ratio	0.9	0.9
Debt to Equity Ratio	2.4	2.5
Return on Equity (%)	13.2	6.4
Interest Rate Coverage Ratio	4.3	4.0
Assets to Equity Ratio	3.4	3.5

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

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

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

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

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

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

Interest Rate Coverage Ratio – EBITDA divided by interest expense and other financing charges.

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

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

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

PART II – OTHER INFORMATION

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

NONE.

SIGNATURES

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

Registrant: PETRON CORPORATION

Signature and Title:

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

Date: May 12, 2016

Principal Financial/Accounting Officer/Controller

Signature and Title:

DENNIS S. JANSON
Assistant Vice President - Controllers

Date: May 12, 2016

PETRON CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	**March 31, 2016**	December 31, 2015
Liquidity			
a) Current Ratio	Current Assets / Current Liabilities	**0.90**	0.91
Solvency			
b) Debt to Equity Ratio	Total Liabilities / Total Equity	**2.40**	2.54
c) Asset to Equity Ratio	Total Assets / Total Equity	**3.40**	3.54
Profitability			
d) Return on Average Equity[a]	Net Income / Average Total Equity	**13.17%**	6.37%
e) Interest Rate Coverage Ratio	Earnings Before Interests, Taxes, Depreciation and Amortization / Interest Expense and Other Financing Charges	**4.27**	4.03

[a] *annualized*