

# 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  
Sep 30, 2017
2. SEC Identification Number  
31171
3. BIR Tax Identification No.  
000-168-801
4. Exact name of issuer as specified in its charter  
PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation or organization  
Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City  
Postal Code  
1550
8. Issuer's telephone number, including area code  
(63 2) 886-3888, 884-9200
9. Former name or former address, and former fiscal year, if changed since last report  
N/A
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON (PCOR)	9,375,104,497
PREFERRED SERIES 2A (PRF2A)	7,122,320
PREFERRED SERIES 2B (PRF2B)	2,877,680
PCOR SERIES A BONDS DUE 2021 (IN MIL PESO)	13,000
PCOR SERIES B BONDS DUE 2023 (IN MIL PESO)	7,000
TOTAL DEBT AS OF SEPT 30, 2017 (IN MIL PESO-CONSO)	226,694

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

Yes No

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

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

12. Indicate by check mark whether the registrant:

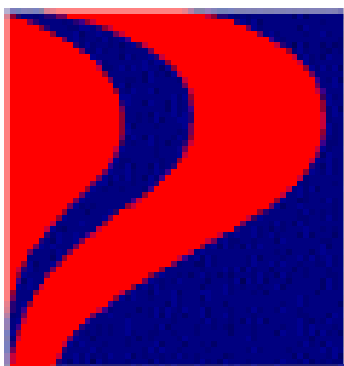
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the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

Yes No

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

Yes No

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



**PETRON**

**Petron Corporation**

**PCOR**

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

For the period ended	Sep 30, 2017
Currency (indicate units, if applicable)	Peso (in Millions)

**Balance Sheet**

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2017	Dec 31, 2016
Current Assets	132,062	125,818
Total Assets	324,074	318,893
Current Liabilities	141,973	158,808
Total Liabilities	226,694	230,073
Retained Earnings/(Deficit)	47,166	42,011
Stockholders' Equity	97,380	88,820
Stockholders' Equity - Parent	91,887	84,491
Book Value per Share	8.69	7.9

#### Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Gross Revenue	106,547	85,907	313,505	247,770
Gross Expense	99,031	80,545	291,434	230,929
Non-Operating Income	154	124	422	456
Non-Operating Expense	3,079	2,401	6,923	6,740
Income/(Loss) Before Tax	4,591	3,085	15,570	10,557
Income Tax Expense	1,044	937	3,809	3,130
Net Income/(Loss) After Tax	3,547	2,148	11,761	7,427
Net Income Attributable to Parent Equity Holder	3,195	1,998	10,763	7,073
Earnings/(Loss) Per Share (Basic)	0.21	0.1	0.77	0.4
Earnings/(Loss) Per Share (Diluted)	-	-	-	-

	Current Year (Trailing 12 months)	Previous Year (Trailing 12 months)
Earnings/(Loss) Per Share (Basic)	0.97	0.4
Earnings/(Loss) Per Share (Diluted)	-	-

#### Other Relevant Information

Please see attached Quarterly Report (SEC Form 17-Q) for the 3rd Quarter of 2017 of the Company filed with the Securities and Exchange Commission on November 16, 2017.

#### Filed on behalf by:

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



111162017004321



## SECURITIES AND EXCHANGE COMMISSION

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Company Information

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SEC Registration No. 0000031171  
Company Name PETRON CORP.  
Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains  
Company Type Stock Corporation

### Document Information

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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 September 30, 2017.
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 September 30, 2017)
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock Series 2A</u>	<u>7,122,320 Shares</u>
<u>Preferred Stock Series 2B</u>	<u>2,877,680 Shares</u>
<u>Total Liabilities</u>	<u>P226,694 Million (as of September 30, 2017)</u>

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

Yes  No

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

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

12. Indicate by check mark whether the Registrant:

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

Yes  No

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

Yes  No

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

	<i>Note</i>	<b>Unaudited September 30 2017</b>	Audited December 31 2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9, 10	<b>P19,628</b>	P17,332
Financial assets at fair value through profit or loss	9, 10	<b>465</b>	221
Available-for-sale financial assets	9, 10	<b>205</b>	71
Trade and other receivables - net	7, 9, 10	<b>32,204</b>	31,548
Inventories		<b>45,297</b>	44,147
Other current assets	7	<b>32,503</b>	32,499
		<b>130,302</b>	125,818
Asset held for sale	11	<b>1,760</b>	-
<b>Total Current Assets</b>		<b>132,062</b>	125,818
<b>Noncurrent Assets</b>			
Available-for-sale financial assets	9, 10	<b>276</b>	408
Property, plant and equipment - net	5, 6	<b>177,465</b>	176,604
Investment in shares of stock of an associate	11	<b>-</b>	1,883
Investment property - net		<b>90</b>	91
Deferred tax assets - net		<b>202</b>	194
Goodwill - net		<b>8,094</b>	7,480
Other noncurrent assets - net	9, 10	<b>5,885</b>	6,415
<b>Total Noncurrent Assets</b>		<b>192,012</b>	193,075
		<b>P324,074</b>	P318,893
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	8, 9, 10	<b>P71,748</b>	P90,366
Liabilities for crude oil and petroleum products	9, 10	<b>32,969</b>	29,966
Trade and other payables	7, 9, 10	<b>11,970</b>	16,161
Derivative liabilities	9, 10	<b>1,364</b>	778
Income tax payable		<b>1,032</b>	626
Current portion of long-term debt - net	9, 10	<b>22,890</b>	20,911
<b>Total Current Liabilities</b>		<b>141,973</b>	158,808

*Forward*

	<i>Note</i>	Unaudited September 30 2017	Audited December 31 2016
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	9, 10	P69,919	P58,941
Retirement benefits liability		3,593	3,315
Deferred tax liabilities - net		7,296	5,726
Asset retirement obligation		2,449	2,324
Other noncurrent liabilities	9, 10	1,464	959
<b>Total Noncurrent Liabilities</b>		<b>84,721</b>	<b>71,265</b>
<b>Total Liabilities</b>		<b>226,694</b>	<b>230,073</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		9,485	9,485
Additional paid-in capital		19,653	19,653
Undated subordinated capital securities		30,546	30,546
Retained earnings		47,166	42,011
Equity reserves		(4,963)	(7,204)
Treasury stock		(10,000)	(10,000)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>91,887</b>	<b>84,491</b>
<b>Non-controlling Interests</b>		<b>5,493</b>	<b>4,329</b>
<b>Total Equity</b>		<b>97,380</b>	<b>88,820</b>
		<b>P324,074</b>	<b>P318,893</b>

*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 Data)**

		July to September		January to September	
	<i>Note</i>	2017	2016	2017	2016
SALES	5	P106,547	P85,907	P313,505	P247,770
COST OF GOODS SOLD		95,262	77,055	281,151	221,164
GROSS PROFIT		11,285	8,852	32,354	26,606
SELLING AND ADMINISTRATIVE EXPENSES		(3,769)	(3,490)	(10,283)	(9,765)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	5	(1,988)	(1,794)	(6,523)	(5,496)
INTEREST INCOME	5	124	106	359	379
SHARE IN NET INCOME OF AN ASSOCIATE		30	18	63	77
OTHER EXPENSES - Net		(1,091)	(607)	(400)	(1,244)
		(6,694)	(5,767)	(16,784)	(16,049)
INCOME BEFORE INCOME TAX		4,591	3,085	15,570	10,557
INCOME TAX EXPENSE	5	1,044	937	3,809	3,130
NET INCOME	5	P3,547	P2,148	P11,761	P7,427
<b>Attributable to:</b>					
Equity holders of the Parent Company		P3,195	P1,998	P10,763	P7,073
Non-controlling interests		352	150	998	354
		P3,547	P2,148	P11,761	P7,427
<b>BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	<i>12</i>	<b>P0.21</b>	P0.10	<b>P0.77</b>	P0.40

*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)**

	July to September		January to September	
	2017	2016	2017	2016
<b>NET INCOME</b>	<b>P3,547</b>	P2,148	<b>P11,761</b>	P7,427
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Equity reserve for retirement plan	4	-	4	1
Share in other comprehensive income of an associate	-	1	-	3
Income tax expense	(1)	(1)	(1)	(1)
	<b>3</b>	<b>-</b>	<b>3</b>	<b>3</b>
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Exchange differences on translation of foreign operations	729	165	2,590	2,007
Unrealized fair value gain (loss) on available-for-sale financial assets	(2)	(4)	1	7
Income tax benefit (expense)	1	1	(1)	(2)
	<b>728</b>	<b>162</b>	<b>2,590</b>	<b>2,012</b>
<b>OTHER COMPREHENSIVE INCOME - Net of tax</b>	<b>731</b>	<b>162</b>	<b>2,593</b>	<b>2,015</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax</b>	<b>P4,278</b>	P2,310	<b>P14,354</b>	P9,442
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P3,828</b>	P2,307	<b>P13,004</b>	P8,976
Non-controlling interests	<b>450</b>	3	<b>1,350</b>	466
	<b>P4,278</b>	P2,310	<b>P14,354</b>	P9,442

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

Certified by:

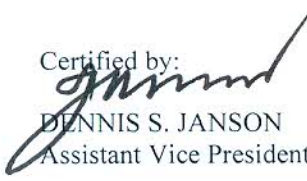
  
DENNIS S. JANSON  
Assistant Vice President - Controllers 


**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											
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Equity Reserves			Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated	Reserve for Retirement Plan	Other Reserves	Treasury Stock			
<b>As of January 1, 2017 (Audited)</b>		P9,485	P19,653	P30,546	P15,160	P26,851	(P1,345)	(P5,859)	(P10,000)	P84,491	P4,329	P88,820
Equity reserve for retirement plan		-	-	-	-	-	3	-	-	3	-	3
Exchange differences on translation of foreign operations		-	-	-	-	-	-	2,238	-	2,238	352	2,590
Other comprehensive income		-	-	-	-	-	3	2,238	-	2,241	352	2,593
Net income for the period		-	-	-	-	10,763	-	-	-	10,763	998	11,761
Total comprehensive income for the period		-	-	-	-	10,763	3	2,238	-	13,004	1,350	14,354
Cash dividends	13	-	-	-	-	(1,584)	-	-	-	(1,584)	(186)	(1,770)
Distributions paid	11	-	-	-	-	(4,024)	-	-	-	(4,024)	-	(4,024)
Transactions with owners		-	-	-	-	(5,608)	-	-	-	(5,608)	(186)	(5,794)
<b>As of September 30, 2017 (Unaudited)</b>		P9,485	P19,653	P30,546	P15,160	P32,006	(P1,342)	(P3,621)	(P10,000)	P91,887	P5,493	P97,380
<b>As of January 1, 2016 (Audited)</b>		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100
Unrealized fair value gain on available-for-sale financial assets – net of tax		-	-	-	-	-	-	5	-	5	-	5
Equity reserve for retirement plan – net of tax		-	-	-	-	-	1	-	-	1	-	1
Share in other comprehensive income of an associate – net of tax		-	-	-	-	-	2	-	-	2	-	2
Exchange differences on translation of foreign operations		-	-	-	-	-	-	1,895	-	1,895	112	2,007
Other comprehensive income		-	-	-	-	-	3	1,900	-	1,903	112	2,015
Net income for the period		-	-	-	-	7,073	-	-	-	7,073	354	7,427
Total comprehensive income for the period		-	-	-	-	7,073	3	1,900	-	8,976	466	9,442
Cash dividends		-	-	-	-	(1,584)	-	-	-	(1,584)	(168)	(1,752)
Distributions paid		-	-	-	-	(3,808)	-	-	-	(3,808)	-	(3,808)
Reversal of appropriation		-	-	-	(10,002)	10,002	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary		-	-	-	-	-	-	(570)	-	(570)	570	-
Purchase of non-controlling interest in subsidiary		-	-	-	-	-	-	(509)	-	(509)	(1,412)	(1,921)
Transactions with owners		-	-	-	(10,002)	4,610	-	(1,079)	-	(6,471)	(1,010)	(7,481)
<b>As of September 30, 2016 (Unaudited)</b>		P9,485	P19,653	P30,546	P15,080	P28,313	(P3,201)	(P4,742)	(P10,000)	P85,134	(P73)	P85,061

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 Nine Months Ended  
September 30

	<i>Note</i>	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P15,570	P10,557
Adjustments for:			
Depreciation and amortization	5	7,979	7,036
Interest expense and other financing charges	5	6,523	5,496
Retirement benefits costs		354	435
Unrealized foreign exchange losses - net		264	1,215
Share in net income of an associate		(63)	(77)
Interest income		(359)	(379)
Other losses (gains)		672	(492)
Operating income before working capital changes		30,940	23,791
Changes in noncash assets, certain current liabilities and others		(3,385)	1,457
Cash generated from operations		27,555	25,248
Contributions to retirement fund		(100)	(135)
Interest paid		(5,618)	(5,158)
Income taxes paid		(1,264)	(707)
Interest received		264	182
Net cash flows provided by operating activities		20,837	19,430
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	6	(6,972)	(2,655)
Proceeds from sale of property and equipment		944	306
Proceeds from sale of available-for-sale financial assets		69	155
Proceeds from sale of investment property		-	18
Decrease (increase) in:			
Other receivables		-	(208)
Other noncurrent assets		(299)	1,299
Net cash flows used in investing activities		(6,258)	(1,085)

*Forward*

		<b>For the Nine Months Ended September 30</b>	
	<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans	<i>8, 11</i>	<b>P186,488</b>	P153,385
Payments of:			
Loans	<i>8, 11</i>	<b>(193,754)</b>	(172,138)
Cash dividends and distributions	<i>11, 13</i>	<b>(5,617)</b>	(5,381)
Purchase of non-controlling interest in a subsidiary		-	(1,921)
Increase in other noncurrent liabilities		<b>512</b>	206
Net cash flows used in financing activities		<b>(12,371)</b>	(25,849)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		<b>88</b>	163
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>2,296</b>	(7,341)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<b>17,332</b>	18,881
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>P19,628</b>	P11,540

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

Certified by:

  
 DENNIS S. JANSON  
 Assistant Vice President - Controllers

*ndk*

## **PETRON CORPORATION AND SUBSIDIARIES**

### **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)

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#### **1. Reporting Entity**

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

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

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

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

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

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

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#### **2. Statement of Compliance**

The consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2016. The consolidated interim financial statements do not include all the information required for a complete set of financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of the Group as of and for the year ended December 31, 2016. The audited consolidated financial statements are available upon request from the Group’s registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

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

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#### **3. Significant Accounting Policies**

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016. The following changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as of and for the year ending December 31, 2017.



#### Adoption of Amendments to Standards

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

- *Disclosure initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.
- *Annual Improvements to PFRS 2014 – 2016 Cycle*. This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRS, none of which has a significant effect on the consolidated interim financial statements of the Group:
  - *Clarification of the scope of the standard (Amendments to PFRS 12, Disclosure of Interests in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

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

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

## To be Adopted 2018

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

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

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

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

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

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently assessing the potential impact on its consolidated interim financial statements resulting from the application of PFRS 15.

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

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

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

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

#### *To be Adopted 2019*

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 16.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability applying the requirements in PAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation. When there is uncertainty over income tax treatments, this interpretation addresses: (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances.

On initial application, an entity shall apply this interpretation either: (a) retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if that is possible without the use of hindsight; or (b) retrospectively with the cumulative effect of initially applying the interpretation recognized at the date of initial application. If an entity selects this transition approach, it shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate). The date of initial application is the beginning of the annual reporting period in which an entity first applies this interpretation.

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

*Deferral of the Local Implementation of Amendments to PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

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

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

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the Financial Reporting Standard Council decided to postpone the effective date of these amendments until the International Accounting Standards Board (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.

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#### **4. Use of Judgments and Estimates**

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

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as of and for the year ended December 31, 2016.

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#### **5. Segment Information**

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

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

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

- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, Vietnam, Taiwan, Cambodia, Malaysia, Thailand, Indonesia, South Korea and Singapore.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection molding grade plastic products.

#### Segment Assets and Liabilities

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

#### Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such 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 September 30, 2017, December 31, 2016 and September 30, 2016:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2017</b>						
Revenue:						
External sales	P312,961	P -	P47	P544	(P47)	P313,505
Inter-segment sales	136,711	92	391	-	(137,194)	-
Operating income	21,530	85	230	-	226	22,071
Net income	12,481	97	98	6	(921)	11,761
Assets and liabilities:						
Segment assets	371,503	1,530	5,911	582	(55,654)	323,872
Segment liabilities	239,793	511	4,519	94	(25,519)	219,398
Other segment information:						
Property, plant and equipment	171,990	-	-	134	5,341	177,465
Depreciation and amortization	7,955	-	6	18	-	7,979
Interest expense and other financing charges	6,523	-	124	-	(124)	6,523
Interest income	460	19	1	3	(124)	359
Income tax expense	3,761	15	14	(3)	22	3,809

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
December 31, 2016						
Revenue:						
External sales	P341,979	P -	P76	P1,823	(P38)	P343,840
Inter-segment sales	161,981	132	517	32	(162,662)	-
Operating income	23,208	104	271	48	166	23,797
Net income	10,495	125	96	63	43	10,822
Assets and liabilities:						
Segment assets	363,812	1,106	5,604	720	(52,543)	318,699
Segment liabilities	242,140	192	4,325	147	(22,457)	224,347
Other segment information:						
Property, plant and equipment	171,330	-	-	151	5,123	176,604
Depreciation and amortization	9,289	-	2	41	173	9,505
Interest expense and other financing charges	7,557	-	173	-	(173)	7,557
Interest income	651	22	2	5	(173)	507
Income tax expense	1,832	15	23	11	1,675	3,556

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
September 30, 2016						
Revenue:						
External sales	P246,180	P -	P99	P1,551	(P60)	P247,770
Inter-segment sales	112,360	95	357	38	(112,850)	-
Operating income	16,456	76	199	55	55	16,841
Net income	10,805	93	53	62	(3,586)	7,427
Assets and liabilities:						
Segment assets	330,588	1,296	5,195	742	(51,983)	285,838
Segment liabilities	207,664	430	3,959	173	(16,773)	195,453
Other segment information:						
Property, plant and equipment	154,168	-	-	189	4,724	159,081
Depreciation and amortization	6,833	-	1	29	173	7,036
Interest expense and other financing charges	5,496	-	131	-	(131)	5,496
Interest income	487	17	2	4	(131)	379
Income tax expense	2,925	14	15	9	167	3,130

The following table presents additional information on the petroleum business segment of the Group as of and for the periods ended September 30, 2017, December 31, 2016 and September 30, 2016:

	Reseller	Lube	Gasul	Industrial	Others	Total
<b>September 30, 2017</b>						
Revenue	<b>P152,803</b>	<b>P4,039</b>	<b>P16,414</b>	<b>P75,071</b>	<b>P64,634</b>	<b>P312,961</b>
Property, plant and equipment	<b>19,950</b>	<b>90</b>	<b>392</b>	<b>222</b>	<b>151,336</b>	<b>171,990</b>
Capital expenditures	<b>2,722</b>	<b>2</b>	<b>90</b>	<b>88</b>	<b>5,129</b>	<b>8,031</b>
December 31, 2016						
Revenue	P161,415	P4,445	P17,922	P83,650	P74,547	P341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334
September 30, 2016						
Revenue	P114,632	P3,402	P12,944	P61,906	P53,296	P246,180
Property, plant and equipment	19,262	117	350	200	134,239	154,168
Capital expenditures	3,042	1	85	98	20,466	23,692

## Geographical Segments

The following table presents segment assets of the Group as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Local	P264,222	P261,761
International	59,650	56,938
	<b>P323,872</b>	<b>P318,699</b>

The following table presents revenue information regarding the geographical segments of the Group for the periods ended September 30, 2017, December 31, 2016 and September 30, 2016:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2017</b>						
Local	P178,013	P54	P438	P544	(P892)	P178,157
Export/international	271,659	38	-	-	(136,349)	135,348
<b>December 31, 2016</b>						
Local	P204,585	P64	P593	P1,855	(P1,686)	P205,411
Export/international	299,375	68	-	-	(161,014)	138,429
<b>September 30, 2016</b>						
Local	P147,808	P55	P418	P1,589	(P1,407)	P148,463
Export/international	210,732	40	38	-	(111,503)	99,307

## 6. Property, Plant and Equipment

This account consists of:

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
<b>Cost:</b>							
January 1, 2016	P28,248	P49,785	P16,230	P4,703	P13,274	P116,585	P228,825
Additions	289	18,065	363	293	467	3,749	23,226
Disposals/reclassifications	34	94,310	(494)	(348)	186	(95,033)	(1,345)
Currency translation adjustment	332	103	73	4	77	18	607
December 31, 2016	28,903	162,263	16,172	4,652	14,004	25,319	251,313
Additions	111	959	199	115	228	5,360	6,972
Disposals/reclassifications	1,601	19,867	424	(100)	9	(22,754)	(953)
Currency translation adjustment	763	862	549	107	537	106	2,924
<b>September 30, 2017</b>	<b>31,378</b>	<b>183,951</b>	<b>17,344</b>	<b>4,774</b>	<b>14,778</b>	<b>8,031</b>	<b>260,256</b>
<b>Accumulated depreciation and amortization:</b>							
January 1, 2016	17,425	33,088	11,140	3,448	2,127	-	67,228
Additions	1,255	5,010	1,192	655	134	-	8,246
Disposals/reclassifications	(85)	(20)	(369)	(477)	(61)	-	(1,012)
Currency translation adjustment	143	173	24	(97)	4	-	247
December 31, 2016	18,738	38,251	11,987	3,529	2,204	-	74,709
Additions	885	5,306	616	297	114	-	7,218
Disposals/reclassifications	(299)	26	(94)	(216)	(50)	-	(633)
Currency translation adjustment	446	628	318	69	36	-	1,497
<b>September 30, 2017</b>	<b>19,770</b>	<b>44,211</b>	<b>12,827</b>	<b>3,679</b>	<b>2,304</b>	<b>-</b>	<b>82,791</b>
<b>Carrying Amount:</b>							
December 31, 2016	P10,165	P124,012	P4,185	P1,123	P11,800	P25,319	P176,604
<b>September 30, 2017</b>	<b>P11,608</b>	<b>P139,740</b>	<b>P4,517</b>	<b>P1,095</b>	<b>P12,474</b>	<b>P8,031</b>	<b>P177,465</b>

### Capital Commitments

As of September 30, 2017 and December 31, 2016, the Group has outstanding commitments to acquire property, plant and equipment amounting to P7,392 and P7,756, respectively.

## 7. Related Party Disclosures

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

The balances and transactions with related parties as of and for the periods ended September 30, 2017 and December 31, 2016 follow:

	<i>Note</i>	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	<i>a</i>	2017 2016	<b>P158</b> 261	<b>P -</b> -	<b>P5,134</b> 5,042	<b>P -</b> -	On demand; interest bearing	Unsecured; no impairment
Intermediate Parent	<i>b,e</i>	2017 2016	<b>8</b> 7	<b>114</b> 173	<b>5</b> 5	<b>9</b> 24	On demand; non-interest bearing	Unsecured; no impairment
Under Common Control	<i>b,c,d,i</i>	2017 2016	<b>2,329</b> 6,473	<b>7,896</b> 30,773	<b>557</b> 1,096	<b>1,753</b> 5,850	On demand; non-interest bearing	Unsecured; no impairment
Associate	<i>b</i>	2017 2016	<b>138</b> 154	- -	<b>39</b> 33	- -	On demand; non-interest bearing	Unsecured; no impairment
Joint Ventures	<i>c,f</i>	2017 2016	- -	<b>35</b> 172	- -	- 3	On demand; non-interest bearing	Unsecured
		<b>2017</b>	<b>P2,633</b>	<b>P8,045</b>	<b>P5,735</b>	<b>P1,762</b>		
		2016	P6,895	P31,118	P6,176	P5,877		

- The Parent Company has interest bearing advances to Petron Corporation Employee Retirement Plan (PCERP), included as part of "Trade and other receivables" account in the consolidated interim statements of financial position, for some investment opportunities.
- Sales relate to the Parent Company's supply agreements with the Intermediate Parent, various SMC subsidiaries, and an associate. Under these agreements, the Parent Company supplies diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology, shipping and terminalling from a joint venture and various SMC subsidiaries.
- Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rental of P5.97. The lease, which commenced on June 1, 2017, is for a period of one year and may be renewed in accordance with the written agreement of the parties.
- The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services for Petron Fuel International Sdn Bhd (PFISB) and another venture.



- g. Amounts owed by related parties consist of trade, non-trade receivables, advances and prepaid expenses.
- h. Amounts owed to related parties consist of trade and non-trade payables.
- i. In 2016, the Parent Company reacquired the Refinery Solid Fuel-Fired Power Plant (the “Power Plant” from SMC Powergen, Inc. The Power Plant is presented as part of “Refinery and plant equipment” category in the “Property, plant and equipment” account (Note 6).

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## 8. Loans and Borrowings

### Short-term Loans

The movements of short-term loans for nine months ended September 30, 2017 follow:

Balance as of January 1, 2017	<b>P90,366</b>
Loan availments	<b>142,154</b>
Loan repayments	<b>(160,848)</b>
Translation adjustment	<b>76</b>
Balance as of September 30, 2017	<b>P71,748</b>

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 4 to 91 days and 7 to 120 days with annual interest ranging from 2.35% to 6.02% and 2.85% to 6.22% as of and for the periods ended September 30, 2017 and December 31, 2016, respectively. These loans are intended to fund the importation of crude oil and petroleum products and working capital requirements.

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## 9. Financial Risk Management Objectives and Policies

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

It is the Group’s policy not to enter into derivative transactions for speculative purposes. The Group uses hedging instruments to protect its margin on its products from potential price volatility of crude oil and products. It also enters into short-term forward currency contracts to hedge its currency exposure on crude oil importations.

The main risks arising from the Group’s financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The Board of Directors (BOD) regularly reviews and approves the policies for managing these financial risks. Details of each of these risks are discussed below, together with the related risk management structure.

### Risk Management Structure

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

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

Oversight and technical assistance is likewise provided by corporate units with special duties. These groups and their functions are:

- a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.
- b. The Treasurers Department, which is in charge of foreign currency hedging transactions.
- c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- d. The Corporate Technical and Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the Board, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. Petron Singapore Trading Pte. Ltd. (PSTPL) executes the hedging transactions involving crude and product imports on behalf of the Group.

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

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

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

- b. The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Group to ensure its functionality and effectiveness.
- c. The Compliance Officer, who is a senior officer of the Parent Company, reports to the BOD chairperson. Among other functions, he monitors compliance with the provisions and requirements of the Corporate Governance Manual and relevant laws and regulations and determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual and other relevant rules and regulations of the SEC.

### Foreign Currency Risk

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

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

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

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

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

	<b>September 30, 2017</b>		December 31, 2016	
	<b>US dollar</b>	<b>Philippine peso Equivalent</b>	US dollar	Philippine peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	298	15,123	261	12,989
Trade and other receivables	213	10,838	218	10,808
Other assets	9	481	5	244
	<b>520</b>	<b>26,442</b>	484	24,041
<b>Liabilities</b>				
Short-term loans	-	-	40	1,996
Liabilities for crude oil and petroleum products	578	29,352	539	26,798
Long-term debt (including current maturities)	600	30,489	651	32,347
Other liabilities	93	4,759	82	4,056
	<b>1,271</b>	<b>64,600</b>	1,312	65,197
<b>Net foreign currency - denominated monetary liabilities</b>	<b>(751)</b>	<b>(38,158)</b>	(828)	(41,156)

The Group incurred net foreign currency losses amounting to P274 and P944 for the periods ended September 30, 2017 and 2016, respectively, which were mainly countered by marked-to-market and hedging gains (Note 10). The foreign currency rates from Philippine peso (PhP) to US dollar (US\$) as of reporting dates are shown in the following table:

	<b>PhP to US\$</b>
<b>September 30, 2017</b>	<b>50.815</b>
December 31, 2016	49.720
September 30, 2016	48.500
December 31, 2015	47.060

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of September 30, 2017 and December 31, 2016:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
<b>September 30, 2017</b>				
Cash and cash equivalents	(P155)	(P252)	P155	P252
Trade and other receivables	(91)	(186)	91	186
Other assets	(2)	(8)	2	8
	<b>(248)</b>	<b>(446)</b>	<b>248</b>	<b>446</b>
Liabilities for crude oil and petroleum products	<b>363</b>	<b>469</b>	<b>(363)</b>	<b>(469)</b>
Long-term debts (including current maturities)	<b>600</b>	<b>420</b>	<b>(600)</b>	<b>(420)</b>
Other liabilities	<b>37</b>	<b>82</b>	<b>(37)</b>	<b>(82)</b>
	<b>1,000</b>	<b>971</b>	<b>(1,000)</b>	<b>(971)</b>
	<b>P752</b>	<b>P525</b>	<b>(P752)</b>	<b>(P525)</b>

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
<b>December 31, 2016</b>				
Cash and cash equivalents	(P132)	(P221)	P132	P221
Trade and other receivables	(97)	(189)	97	189
Other assets	-	(5)	-	5
	<b>(229)</b>	<b>(415)</b>	<b>229</b>	<b>415</b>
Short-term loans	-	40	-	(40)
Liabilities for crude oil and petroleum products	<b>294</b>	<b>451</b>	<b>(294)</b>	<b>(451)</b>
Long-term debts (including current maturities)	<b>605</b>	<b>470</b>	<b>(605)</b>	<b>(470)</b>
Other liabilities	<b>14</b>	<b>77</b>	<b>(14)</b>	<b>(77)</b>
	<b>913</b>	<b>1,038</b>	<b>(913)</b>	<b>(1,038)</b>
	<b>P684</b>	<b>P623</b>	<b>(P684)</b>	<b>(P623)</b>

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

### Interest Rate Risk

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

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

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings prior to deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term volatility on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

Managing interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity through the retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P305 and P323 for the period ended September 30, 2017 and for the year ended December 31, 2016, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

### Interest Rate Risk Table

As of September 30, 2017 and December 31, 2016, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

September 30, 2017	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P22,929	P3,820	P3,172	P3,172	P18,791	P11,536	P63,420
Interest rate	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.5% - 5.5%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	-	4,356	8,711	8,711	8,711	-	30,489
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		
	P22,929	P8,176	P11,883	P11,883	P27,502	P11,536	P93,909

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

December 31, 2016	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.5% - 5.5%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US\$ denominated (expressed in PhP)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

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

### Credit Risk

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by National Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated interim statements of financial position or in the notes to the consolidated interim financial statements, as summarized below:

	September 30, 2017	December 31, 2016
Cash in bank and cash equivalents (net of cash on hand)	<b>P17,280</b>	P15,538
Derivative assets	<b>293</b>	64
Available-for-sale (AFS) financial assets	<b>481</b>	479
Trade and other receivables - net	<b>32,204</b>	31,548
Long-term receivables - net	<b>222</b>	205
Noncurrent deposits	<b>86</b>	81
	<b>P50,566</b>	P47,915

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

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

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,398 and P3,943 as of September 30, 2017 and December 31, 2016, respectively. These securities may only be called on or applied upon default of customers.

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

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects including but not limited to the assessment of the customer’s nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

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

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

#### *Liquidity Risk*

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

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

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

The table below summarizes the maturity profile of the Group’s financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of September 30, 2017 and December 31, 2016:

<b>September 30, 2017</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	P19,628	P19,628	P19,628	P -	P -	P -
Trade and other receivables	32,204	32,204	32,204	-	-	-
Derivative assets	293	293	293	-	-	-
Financial assets at FVPL	172	172	172	-	-	-
AFS financial assets	481	525	213	20	292	-
Long-term receivables – net	222	222	-	-	-	222
Noncurrent deposits	86	86	-	-	8	78

<b>September 30, 2017</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Liabilities</b>						
Short-term loans	71,748	71,997	71,997	-	-	-
Liabilities for crude oil and petroleum products	32,969	32,969	32,969	-	-	-
Trade and other payables*	9,480	9,480	9,480	-	-	-
Derivative liabilities	1,364	1,364	1,364	-	-	-
Long-term debt (including current maturities)	92,809	105,677	26,010	10,903	56,548	12,216
Cash bonds	396	400	-	380	3	17
Cylinder deposits	1,006	1,006	-	-	-	1,006
Other noncurrent liabilities	62	63	-	15	25	23

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

<b>December 31, 2016</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	P17,332	P17,332	P17,332	P -	P -	P -
Trade and other receivables	31,548	31,548	31,548	-	-	-
Derivative assets	64	64	64	-	-	-
Financial assets at FVPL	157	157	157	-	-	-
AFS financial assets	479	522	96	208	172	46
Long-term receivables - net	205	205	-	-	205	-
Noncurrent deposits	81	81	-	13	68	-
<b>Financial Liabilities</b>						
Short-term loans	90,366	90,882	90,882	-	-	-
Liabilities for crude oil and petroleum products	29,966	29,966	29,966	-	-	-
Trade and other payables*	12,709	12,709	12,709	-	-	-
Derivative liabilities	778	778	778	-	-	-
Long-term debt (including current maturities)	79,852	91,103	24,673	15,711	42,050	8,669
Cash bonds	387	393	-	372	4	17
Cylinder deposits	499	499	-	-	-	499
Other noncurrent liabilities	73	73	-	14	34	25

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

### **Commodity Price Risk**

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

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



### *Other Market Price Risk*

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

### *Capital Management*

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

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

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

	<b>September 30, 2017</b>	December 31, 2016
Total assets	<b>P324,074</b>	P318,893
Total liabilities	<b>226,694</b>	230,073
Total equity	<b>97,380</b>	88,820
Debt to equity ratio	<b>2.3:1</b>	2.6:1
Assets to equity ratio	<b>3.3:1</b>	3.6:1

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.

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## **10. Financial Assets and Financial Liabilities**

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

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

*Classification of Financial Instruments.* The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, 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, commodity price swaps and embedded derivatives are recognized under "Other expenses - Net" in the consolidated interim statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized as part of "Cost of goods sold" in the consolidated interim statements of income.

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

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

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

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

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

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

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

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

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

### *Financial Liabilities*

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

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

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

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

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

#### Debt Issue Costs

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

#### Embedded Derivatives

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Offsetting Financial Instruments

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

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2017 and December 31, 2016:

	<u>September 30, 2017</u>		December 31, 2016	
	<u>Carrying Value</u>	<u>Fair Value</u>	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	<b>P19,628</b>	<b>P19,628</b>	P17,332	P17,332
Trade and other receivables - net	<b>32,204</b>	<b>32,204</b>	31,548	31,548
Long-term receivables - net	<b>222</b>	<b>222</b>	205	205
Noncurrent deposits	<b>86</b>	<b>86</b>	81	81
Loans and receivables	<b>52,140</b>	<b>52,140</b>	49,166	49,166
AFS financial assets	<b>481</b>	<b>481</b>	479	479
Financial assets at FVPL	<b>172</b>	<b>172</b>	157	157
Derivative assets	<b>293</b>	<b>293</b>	64	64
Total financial assets at FVPL	<b>465</b>	<b>465</b>	221	221
<b>Total financial assets</b>	<b>P53,086</b>	<b>P53,086</b>	P49,866	P49,866

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Short-term loans	P71,748	P71,748	P90,366	P90,366
Liabilities for crude oil and petroleum products	32,969	32,969	29,966	29,966
Trade and other payables*	9,480	9,480	12,709	12,709
Long-term debt including current portion	92,809	92,809	79,852	79,852
Cash bonds	396	396	387	387
Cylinder deposits	1,006	1,006	499	499
Other noncurrent liabilities	62	62	73	73
Financial liabilities at amortized cost	208,470	208,470	213,852	213,852
Derivative liabilities	1,364	1,364	778	778
Total financial liabilities	P209,834	P209,834	P214,630	P214,630

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

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

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

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

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

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

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

*Short-term Loans, Liabilities for Crude Oil and Petroleum Products and Trade and Other Payables.* The carrying amount of short-term loans, liabilities for crude oil and petroleum products and trade and other payables approximates fair value primarily due to the relatively short-term maturities of these financial instruments.

### Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are recognized directly in profit or loss.

### Freestanding Derivatives

Freestanding derivatives consist of commodity and currency derivatives entered into by the Group.

*Currency Forwards.* As of September 30, 2017 and December 31, 2016, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$827 million and US\$875 million, respectively, and with various maturities in 2017. As of September 30, 2017 and December 31, 2016, the net negative fair value of these currency forwards amounted to P129 and P38, respectively.

*Commodity Swaps.* The Group has outstanding swap agreements covering its oil requirements with various maturities in 2017 and 2018. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 48.7 million barrels and 26.3 million barrels as of September 30, 2017 and December 31, 2016, respectively. The estimated net payout for these transactions amounted to P942 and P676 as of September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016, the total outstanding notional amount of currency forwards embedded in nonfinancial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of September 30, 2017 and December 31, 2016, the net fair value of these embedded currency forwards is minimal.

For the periods ended September 30, 2017 and 2016, the Group recognized marked-to-market loss from freestanding and embedded derivatives amounting to P151 and P22, respectively.

### Fair Value Measurements

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

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

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



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

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

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

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

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

#### Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method, as of September 30, 2017 and December 31, 2016. The different levels have been defined as follows:

<b>September 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
Financial Assets at FVPL	P -	P172	P172
Derivative assets	-	293	293
AFS financial assets	143	338	481
Financial Liabilities:			
Derivative liabilities	-	(1,364)	(1,364)
<hr/>			
December 31, 2016	Level 1	Level 2	Total
Financial Assets:			
Financial Assets at FVPL	P -	P157	P157
Derivative assets	-	64	64
AFS financial assets	141	338	479
Financial Liabilities:			
Derivative liabilities	-	(778)	(778)

The Group has no financial instruments valued based on Level 3 as of September 30, 2017 and December 31, 2016. During the period, there were no transfers between, into and out of Level 1 and Level 2 fair value measurements.

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## 11. Significant Transactions During the Period

- a. On February 3, 2017 and August 4, 2017, the Parent Company paid distributions amounting to US\$28.125 million (P2,000) and US\$28.125 million (P2,024) to the holders of Undated Subordinated Capital Securities (USCS).
- b. On March 31, 2017, the Parent Company partially settled US\$20 million of the remaining US\$135 million of the US\$475 million term loan facility.
- c. On June 28, 2017, the Parent Company drew US\$600 million from a US\$1,000 million term loan facility which was signed and executed on June 16, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a spread. The proceeds were used to pay in full the outstanding balances of US\$115 million and US\$470 million under the US\$475 million and US\$550 million term loan facilities, respectively.
- d. On July 25, 2017, the Parent Company drew P15,000 from a P15,000 term loan facility which was signed on July 14, 2017 and executed on July 17, 2017. The facility is amortized over 7 years and is subject to a fixed interest rate of 5.5834% per annum for the first two years and 5.8185% per annum for the succeeding year until the end of the term. The proceeds were used to refinance the bridge loan availed on December 23, 2016 for the acquisition of the Power Plant.
- e. On May 25, 2017, PFISB prepaid the remaining balance of the 50 million loans in Malaysian ringgit (MYR) amounting to MYR38 million (P436). Likewise, on May 29, 2017, Petron Malaysia Refining and Marketing Bhd. (PMRMB) prepaid the remaining balance of the MYR100 million amounting to MYR67 million (P779). Also, on September 27, 2017, PMRMB fully prepaid the MYR100 million loan amounting to MYR67 million (P800).
- f. On September 21, 2017, the Parent Company signed the Share Purchase Agreement with International Container Terminal Services, Inc. (ICTSI) for the sale by the Parent Company of its 10,449,000 shares in Manila North Harbour Port, Inc. (MNHPI) equal to 34.83% of MNHPI's outstanding shares for a total consideration of P1,750. The completion of the sale purchase agreement was subject to several conditions.

Consequently, the total investment over MNHPI, which also includes the remaining 51,000 shares or 0.17% interest in MNHPI with carrying amount of P10, recognized under the "Investment in shares of stock of an associate" account, has been reclassified to "Asset held for sale" account in the consolidated interim statements of financial position as of September 30, 2017. Impairment loss recognized as part of "Other expenses – net" in the consolidated interim statements of income as a result of the reclassification amounted to P189.

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## 12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the nine months ended September 30, 2017 and 2016 are computed as follows:

	2017	2016
Net income attributable to equity holders of the Parent Company	<b>P10,763</b>	P7,073
Dividends on preferred shares for the period	<b>(484)</b>	(484)
Distributions to the holders of USCS	<b>(3,018)</b>	(2,856)
Net income attributable to common shareholders of the Parent Company (a)	<b>P7,261</b>	P3,733
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>P0.77</b>	P0.40

As of September 30, 2017 and 2016, the Group has no dilutive debt or equity instruments.

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## 13. Dividends

On March 14 and August 8, 2017, the BOD of the Parent Company approved cash dividends for common and series 2 preferred shareholders with the following details:

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 28, 2017	April 12, 2017
Series 2A	15.75000	April 12, 2017	May 3, 2017
Series 2B	17.14575	April 12, 2017	May 3, 2017
Series 2A	15.75000	July 18, 2017	August 3, 2017
Series 2B	17.14575	July 18, 2017	August 3, 2017
Series 2A	15.75000	October 16, 2017	November 3, 2017
Series 2B	17.14575	October 16, 2017	November 3, 2017
Series 2A	15.75000	January 16, 2018	February 5, 2018
Series 2B	17.14575	January 16, 2018	February 5, 2018

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## 14. Commitments and Contingencies

### Supply and Lease Agreements

The Parent Company assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company, based on the latter's standard Far East selling prices. The contract is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice. PSTPL entered into a term contract with Kuwait Petroleum Corporation to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract is from January 1, 2015 to December 31, 2015 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company and PSTPL for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position.

On September 30, 2009, the Parent Company through New Ventures Realty Corporation (NVRC) entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises 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 September 30, 2017, 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 P14,814 and P21,638 as of September 30, 2017 and December 31, 2016, 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 September 30, 2017.

#### Pandacan Terminal Operations

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

The City of Manila subsequently issued the Ordinance No. 8119, *Comprehensive Land Use Plan and Zoning Ordinance*, which applied to the entire City of Manila. Ordinance No. 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance No. 8027.

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

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

On August 24, 2012 (the “August 24 Decision”), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. The Parent Company filed with the RTC a Notice of Appeal to the CA on January 23, 2013. The parties have filed their respective briefs.

In a decision dated September 19, 2017, the CA denied the appeal of the Parent Company, finding that Manila’s Comprehensive Land Use Plan was valid, except for Section 55 of Ordinance 8119. Section 55, which imposed an easement of 10 meters from the riverbank to serve as a linear park, was struck down as invalid because it violated the Water Code which required only a three-meter easement. The Parent Company no longer filed a motion for reconsideration or elevated the matter to the Supreme Court since the issue has already become moot following the cessation by the Parent Company of the operations of its petroleum storage facilities in Pandacan in August 2015.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (the “November 25 Decision”) declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell’s motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

On May 14, 2015, the 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 (IFO), sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of September 30, 2017.

#### 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.

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### **15. Events After the Reporting Period**

- a. On October 10, 2017, the Parent Company drew the remaining US\$400 million from the US\$1,000 million term loan facility which was signed and executed on June 16, 2017. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a spread. The proceeds was used to settle the P20,000 Peso-denominated Notes which matured on November 10, 2017.
- b. On October 30, 2017 all conditions for the completion of the sale of the Parent Company's shares in MNHPI, as discussed in Note 11f, had been complied with and accordingly, the purchase price had been paid.

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### **16. Other Matters**

- a. On October 20, 2017, the Parent Company filed with the RTC of Mandaluyong City a complaint against the PNOC for *Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction*.

In its complaint, the Parent Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the Parent Company. These landholdings consist of the Refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by the Parent Company of the conveyed lots for its business operation. Thus, PNOC and the Parent Company executed three lease agreements covering the Refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years.

The complaint stemmed from PNOC's refusal to honor the automatic renewal clause in the lease agreements for the bulk plants and the service station sites. Earlier in 2009, the Parent Company, through its realty subsidiary, New Ventures Realty Corporation, had an early renewal of the lease agreement for the Refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The Parent Company alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Parent Company.

The RTC granted Petron's prayer for a temporary restraining order, enjoining PNOC from committing any act to dispossess the Parent Company of the subject lots and set the hearing on the issuance of writ of preliminary injunction on November 10, 2017.

- b. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- c. There were no material off-statements of financial position items, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the notional values of outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2017.
- d. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

Gross Domestic Product (GDP)

GDP expanded by 6.5% in the second quarter of 2017, slightly faster than the 6.4% growth in the first quarter of 2017, but slower than the 7.1% growth in the same period last year. The year-on-year slowdown was mainly due to election year base effects and deceleration in private investments.

Economic growth, in percentage	2 <sup>nd</sup> Quarter of 2016	1 <sup>st</sup> Quarter of 2017	2 <sup>nd</sup> Quarter of 2017
GDP	7.1	6.4	6.5
<i>By Industry</i>			
Agriculture	(2.0)	4.9	6.3
Industry	7.6	6.3	7.3
Services	8.2	6.7	6.1
<i>By Expenditure</i>			
Household Consumption	7.5	5.8	5.9
Government Consumption	13.5	0.1	7.1
Capital Formation	30.3	10.6	8.7
Exports	10.6	20.3	19.7
Imports	25.4	18.6	18.7

The demand side was driven by Household Consumption which expanded by 5.9% and accounted for 60% of total growth. Government Consumption rebounded to 7.1% from 0.1% the previous quarter. Conversely, Capital Formation further decelerated to 8.7%, amid slow implementation of big-ticket infrastructure projects. Export was robust at 19.7%, but growth was dampened by increased Imports due to strength in domestic demand.

Growth on the supply side was driven by Services which expanded by 6.1%, supported by Trade, and Real Estate, Renting and Business Activities. Industry also showed strength at 7.3%, underpinned by healthy Manufacturing subsector. Public Construction picked up, but was partly offset by modest growth in Private Construction consequent to the shift from Public-Private Partnerships (PPPs) to a public initiated approach. Agriculture further recovered to 6.3% after El Niño season last year.

The Philippines was the second fastest growing major economy in Asia, next to China.

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

91-day T-Bill rates averaged 2.12% in the third quarter of 2017, relatively at the same level with 2.21% in second quarter in 2017, but higher compared to 1.42% in the same period last year. The gradual 0.25%-point increase in the US Federal interest rate in December 2016, March 2017 and June 2017 affected inflow of foreign funds, and liquidity of the developing countries.

Philippine Dealing System Treasury - R2 averaged 2.32% in the third quarter of 2017, higher than 1.68% in the same period last year.

#### Peso-Dollar Exchange Rate

The peso averaged PhP50.84/US\$ in the third quarter of 2017, weaker by 1.93% from PhP49.86 per US\$ in the second quarter of 2017, and by 7.41% from PhP47.07/US\$ in the same period last year. Weakening of emerging market currencies, like the Philippine peso, is due in large part to uncertainties over the US Federal interest rate hike, economic and fiscal policies under US President Donald Trump's administration, and Brexit negotiations which started on June 19, 2017.

#### Inflation

The rate of increase in prices of commodities and services averaged 3.1% in the third quarter of 2017, same with the level in the second quarter of 2017, but faster than the 2.0% in the same period last year. The uptrend was underpinned by higher energy and food prices, and weaker peso.

#### Industry Oil Demand

Oil demand growth, based on the data published by the Department of Energy (DOE), tapered by 1.0% from 73,861 MB in the first half of 2016 to 74,576 thousand barrels (MB) in the first half of 2017. Growth due to a favorable business environment (e.g., manageable inflation and strong growth in vehicle sales of 17% during the year ending June 2017) was offset by lower fuel consumption for power generation. Lower demand from the power sector is consequent to the shift to cheaper sources of energy like coal, geothermal, hydro, solar and wind.

#### Oil Market

Year-on-year prices of Dubai increased by 16.8% to average US\$50.43 per barrel in the third quarter of 2017 from US\$43.19 per barrel in the same period last year. OPEC's production cut which started in January 2017 supported the increase in prices. Product cracks also went on an upward trend for naphtha, LPG, gasoline, kero-jet and diesel, owing to tightening of Asian and global balances.

#### Existing or Probable Government Regulation

*Tax Reform Bill.* The government eyes restructuring excise taxes on oil products. House Bill 5636 proposes imposition of higher excise taxes on petroleum products starting 2018. The incremental excise tax will further be subject to 12% VAT.

Proposed excise tax for lubes, naphtha, gasoline and jet fuel are P7 per liter in 2018, P9 per liter by 2019 and P10 per liter by 2020. Meanwhile, for LPG, Kerosene, Diesel and IFO, which currently are not levied excise tax, the proposed rate is P3 per liter in 2018, P5 per liter by 2019 and P6 per liter by 2020.



The proposed bill also includes administrative reforms such as the adoption of fuel marking and monitoring system to prevent smuggling.

Senate Bill 1592, Senate's version of the Tax Reform for Acceleration and Inclusion Act (TRAIN), introduced adjustments to House Bill 5636. These include rephrasing the schedule of the P6 per liter increase in excise taxes to PhP1.75-2.00-2.25 from initial schedule of PhP3-2-1 proposed by House Bill 5636.

*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/cocemethyl ester (CME) components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the DOE issued in June 2015 its Circular No. 2015-06-0005 entitled "Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend" which currently exempts premium plus gasoline from the 10% blending requirement.

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

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

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

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

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

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

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

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

**PETRON CORPORATION AND SUBSIDIARIES**

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**RECEIVABLES**

**As of September 30, 2017**

**(Amounts in Million Pesos)**

Breakdown:

Accounts Receivable – Trade	<b>P21,683</b>
Accounts Receivable – Non-Trade	10,521
<b>Total Accounts Receivable</b>	<b>P32,204</b>

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**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P20,874
	31 – 60 days	102
	61 – 90 days	107
	Over 90 days	1,398
<b>Total</b>		<b>22,481</b>
Allowance for doubtful accounts		798
<b>Accounts Receivable – Trade</b>		<b>P21,683</b>

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## Interim Financial Report as of September 30, 2017

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

#### Financial Performance

##### 2017 vs 2016

In the first nine months of 2017, Petron Corporation sustained its performance momentum as consolidated net income reached **₱ 11.76 billion**. This was a 58% improvement from last year's ₱ 7.43 billion profit driven by the company's continued focus to more profitable market segments and sale of higher margin fuels and petrochemicals coming from production coupled by the strong performance of Malaysian operations.

(In Million Pesos)	2017	2016	Variance- Fav (Unfav)	
			Amt	%
Sales	313,505	247,770	65,735	27
Cost of Goods Sold	281,151	221,164	(59,987)	(27)
Gross Margin	32,354	26,606	5,748	22
Selling and Administrative Expenses	10,283	9,765	(518)	(5)
Non-operating Charges	6,501	6,284	(217)	(3)
<b>Net Income</b>	<b>11,761</b>	<b>7,427</b>	<b>4,334</b>	<b>58</b>
EBITDA	30,008	23,701	6,307	27
Sales Volume (MB)	80,251	79,331	920	1
Earnings per Share (₱)	0.77	0.40	0.38	95
Return on Sales (%)	3.8	3.0	0.8	25

**Earnings before interest, taxes, depreciation and amortization** likewise went up by 27% to **₱ 30.01 billion** owing to higher operating income.

Also, **Earnings per share** of **₱ 0.77** almost doubled last year's ₱ 0.40 level, while **return on sales** improved from 3.0% to **3.8%**.

The main contributors of the first three quarters performance versus same period last year were as follows:

◆ **Consolidated Sales volume** slightly improved to **80.25 million barrels (MMB)** from previous year's 79.33 MMB due to strong sales in Malaysian operations. For Philippine operations, the continued focus on higher value market segments resulted in volume reduction of Diesel, Naphtha and LPG tempered by the increases in Gasoline, Petrochemicals and Kero/Jet A-1. For Malaysian operations, all products exhibited growth due to its aggressive network expansion and marketing initiatives.

◆ **Net sales** increased by 27% or ₱ 65.74 billion to **₱ 313.51 billion** due to the increase in average selling prices traced to the escalation of regional market prices of finished products, further boosted by the ₱ 3.28 average depreciation of Philippine peso versus the US dollar. Incremental volume sold during the period also contributed to higher revenues.

◆ **Cost of Goods Sold (CGS)** also grew by 27% or **₱ 59.99 billion** to **₱ 281.15 billion** from last year's **₱ 221.16 billion** driven by higher prices of crude and imported products. During the period, benchmark crude Dubai averaged US\$51/bbl, 31% higher than the US\$39/bbl last year. Gross margin also improved to **₱ 32.35 billion** from last year's **₱ 26.61 billion** due to lower cost of power, better product cracks coupled with peso depreciation as against the US dollar and higher volume sold. These were partly negated by the net inventory losses realized this year versus net gain last year.

◆ **Selling and Administrative Expenses (OPEX)** escalated 5% from **₱ 9.77 billion** to **₱ 10.28 billion** owing to the increases in LPG cylinder purchases and rent expenses of storage tanks and service stations.

◆ **Net Financing Costs and Other Charges** went up by **₱ 217 million** to **₱ 6.50 billion** from **₱ 6.28 billion** in previous year due to higher interest expense brought about by higher borrowing level and rate, further increased by the full recognition of debt issue cost of pre-terminated long-term dollar loans. These were partially offset by the net gains recognized on forex/hedging transactions (as against net loss last year) and from the one-time gain on disposal of service stations in Malaysia due to the compulsory acquisition of Mass Rapid Transit Corp S/B (MRT).

◆ **Income tax expense** amounted to **₱ 3.81 billion** from **₱ 3.13 billion** in the same period last year due to higher pre-tax income.

## 2016 vs 2015

Petron Corporation posted a consolidated net income of **₱ 7.43 billion** during the first nine months of 2016, surpassing last year's **₱ 5.07 billion** earnings by 47%. The significant increase was a result of higher sales volume and lower cost. Growth in volume was driven by the aggressive network expansion, various marketing initiatives and enhanced participation in key industries. The operation of RMP2 also resulted in the production of higher value products and the ability to refine cheaper crude. The improvements, however, were partly tempered by lower product cracks year-on-year.

(In Million Pesos)	2016	2015	Variance- Fav (Unfav)	
			Amt	%
Sales	247,770	278,295	(30,525)	(11)
Cost of Goods Sold	221,164	255,251	34,087	13
Gross Margin	26,606	23,044	3,562	15
Selling and Administrative Expenses	9,765	9,382	(383)	(4)
Non-operating Charges	6,284	6,663	379	6
<b>Net Income</b>	<b>7,427</b>	<b>5,068</b>	<b>2,359</b>	<b>47</b>
EBITDA	23,701	16,281	7,420	46
Sales Volume (MB)	79,331	74,430	4,901	7
Earnings per Share ( ₱ )	0.40	0.14	0.26	high
Return on Sales (%)	3.0	1.8	1.2	

Correspondingly, **earnings before interest, taxes, depreciation and amortization (EBITDA)** surged 46% to **₱ 23.70 billion** from **₱ 16.28 billion** during same period last year.

**Earnings per share** improved to **₱ 0.40** while **return on sales** grew to **3.0%**.

The key factors that boosted the YTD September 2016 performance vis-a-vis same period in 2015 were:

◆ **Consolidated Sales volume** went up 7% to **79.3 million barrels (MMB)** from 74.4 MMB last year. Petron saw robust growth across all market segments namely Retail, Industrial, LPG, and Lubricants. In the Philippines, industrial sales increased by 14% contributed mainly by aviation and power-generation industries. Likewise, its lubricants and LPG businesses posted a 17% and 14% growth, respectively. Petron remained the undisputed leader in retail with nearly 2,250 service stations nationwide larger than three closest competitors combined. In Malaysia, the Company continues to expand its current network of about 570 retail outlets by building more service stations, particularly in underserved markets. On a per product basis, increases came from Diesel, Kero/Jet, Gasoline and LPG sales. Meanwhile, Malaysian operations showed a 6% growth in the retail market mainly from higher gasoline sales.

◆ **Net sales** dropped by 11% (**₱ 30.53 billion**) to **₱ 247.77 billion** due to the decline in selling price per liter as regional market prices of finished products weakened compared to last year. The effect of lower selling prices was partly offset by the additional revenue from the incremental sales volume.

◆ **Cost of Goods Sold (CGS)** dipped more by 13% or **₱ 34.09 billion** to **₱ 221.16 billion** from last year's **₱ 255.25 billion**, traced to lower prices of crude and imported finished products. During the current period, the average price of benchmark crude Dubai plunged by 28% to US\$39/bbl from US\$54/bbl average in 2015. The impact of the drop in costs was partly countered by the cost of the additional volume sold.

◆ **Selling and Administrative Expenses** of **₱ 9.77 billion** rose by 4% or **₱ 383 million** primarily due to higher service stations' related expenses, warehousing and terminalling fees and accrual of retirement benefits.

◆ **Net Financing Costs and Other Charges** went down by 6% (**₱ 379 million**) to **₱ 6.28 billion** brought about by the decline in marked-to-market loss on outstanding commodity hedge positions, drop in financing costs due to lower borrowing level, decreases in swap costs on foreign currency hedges and bank charges, tempered by the absence of capitalized interest from RMP2 project financing.

◆ **Income tax expense** of **₱ 3.13 billion** stood 62% higher than prior year's **₱ 1.93 billion** with the increase in pre-tax income coupled by the income tax on dividends received from foreign subsidiaries, partly negated by the recognition of income tax holiday from RMP2 yield.

## **Financial Position**

### **2017 vs 2016**

**Consolidated assets** of Petron Corporation and Subsidiaries reached **₱ 324.07 billion**, 2% or **₱ 5.18 billion** more than end-2016 balance of **₱ 318.89 billion** due primarily to higher cash and cash equivalents and inventories.

**Cash and cash equivalents** increased by 13% from **₱ 17.33 billion** to **₱ 19.63 billion** with cash generated from operations was more than adequate to cover interest and income tax obligations, fund capital programs, pay dividends and distributions and settle loans.

**Financial assets at fair value through profit or loss** surged to **₱ 465 million** from **₱ 221 million** on account of Petron Malaysia's marked-to-market gains on outstanding commodity hedges.

On September 21, 2017, the Parent Company signed a share purchase agreement with ICTSI for the sale of the Parent Company's share in Manila North Harbor Port Inc. This resulted in the reclassification of the **Investments in shares of stock of an associate** amounting to **₱ 1.88 billion** as of end-2016 and gave rise to the recognition of **Assets held for sale** for **₱ 1.76 billion**.

**Goodwill - net** went up to **₱ 8.09 billion** from ₱ 7.48 billion owing to currency translation gain of Petron Malaysia's goodwill.

**Other noncurrent assets - net** was reduced to **₱ 5.89 billion** from end-2016 level of ₱ 6.42 billion due to the amortization of catalysts and Petron Malaysia's prepaid expenses.

**Short-term loans** declined to **₱ 71.75 billion** from ₱ 90.37 billion as the Parent Company's payment exceeded the availment coupled by PM's full settlement of its short-term loans.

**Liabilities for crude and petroleum products** grew by 10% (₱ 3.00 billion) to **₱ 32.97 billion** fueled by higher volume of outstanding crude and product purchases.

**Trade and other payables** dropped by 26% from ₱ 16.16 billion to **₱ 11.97 billion** mainly due to the settlement of various payable to contractors and suppliers.

**Derivative liabilities** nearly doubled to **₱ 1.36 billion** from December 2016 balance of ₱ 778 million attributed to the increase in marked-to-market losses on outstanding commodity hedges of the Parent Company.

**Long-term debt** (including current portion) increased to **₱ 92.81 billion** from end-2016's balance of ₱ 79.85 billion owing to the Parent Company's availment of a ₱ 15.00 billion term loan facility partly offset by the prepayment of PM's loan.

**Income tax payable** increased from ₱ 0.63 billion to **₱ 1.03 billion** brought about by the improvement in taxable income of PM.

**Retirement benefits liability** went up by 8% or ₱ 278 million to **₱ 3.59 billion** with the accrual of employee retirement expenses.

**Deferred tax liabilities - net** rose by 27% from ₱ 5.73 billion to **₱ 7.30 billion** due to the increase in temporary differences arising from foreign exchange losses realized in pre-terminating certain dollar loans and from the accelerated depreciation method on the refinery and power plant assets.

**Asset retirement obligation** accumulated to **₱ 2.45 billion** from ₱ 2.32 billion on account of the recorded accretion expense during the period.

**Other noncurrent liabilities** amounted to **₱ 1.46 billion**, up by 53% from end-2016 level due to additional customers' LPG cylinder deposit.

**Retained earnings (attributable to the Parent Company)** grew by 12% to **₱ 47.17 billion** driven by the ₱ 10.76 billion share in net profit recorded during the three quarters of 2017, partly reduced by the cash dividends declared and distributions paid of ₱ 5.61 billion.

The negative balance of **Equity reserves** was reduced by 31% or ₱ 2.24 billion to **₱ 4.96 billion** due to the currency translation gains on investments in foreign operations brought about by the continued depreciation of the Philippine peso versus the US dollar.

**Non-controlling interests** increased by 27% to **₱ 5.49 billion**, from the ₱ 4.33 billion balance as of December 31, 2016 due to the share in net income and currency translation adjustment for the current period, reduced by cash dividends paid to minority shareholders.

## 2016 vs 2015

**The consolidated resources** of the Company as of September 30, 2016 amounted to **₱ 286.06 billion**, 3% or ₱ 8.20 billion lower than the December 31, 2015 level of ₱ 294.27 billion due mainly to the decreases in cash and cash equivalents, trade and other receivables, and property, plant and equipment partially offset by the increase in inventories.

**Cash and cash equivalents** was reduced by 39% or ₱ 7.34 billion to **₱ 11.54 billion** as funds were used to pay off loans, cash dividends, distributions and financing charges.

**Financial assets at fair value through profit or loss** more than doubled from ₱ 509 million to **₱ 1.11 billion** traced to higher marked-to-market gains on freestanding currency derivatives.

**Trade and other receivables - net** dropped to **₱ 26.61 billion** or by 13% from ₱ 30.75 billion owing largely to the collection of tax credit certificates from government, receipt of adjustment on provisional billings from crude supplier and collections of matured commodity hedges from counterparties.

**Inventories** aggregated **₱ 37.14 billion**, 20% or ₱ 6.32 billion more than the ₱ 30.82 billion as of end 2015 on account of higher volume and price of crude oil and finished products.

**Available-for-sale financial assets** (current and non-current) declined by 25% (₱ 155 million) to **₱ 466 million** prompted by the maturity of corporate bonds held by an insurance subsidiary.

**Investment properties** dropped from ₱ 112 million to **₱ 92 million** with the sale of a parcel of land owned by a realty subsidiary.

**Deferred tax assets** went up to **₱ 225 million** from last year's ₱ 211 million brought about by the higher valuation of Petron Malaysia's tax assets as the US Dollar appreciated against the Philippine Peso.

**Other noncurrent assets - net** dipped by 30% or ₱ 2.01 billion to **₱ 4.71 billion** from December 2015's balance of ₱ 6.72 billion due to the collection of advances to Petron Corporation Employees' Retirement Plan.

**Short-term loans and liabilities for crude oil and petroleum product importation** were reduced by 9% (₱ 10.21 billion) to **₱ 105.54 billion** attributed to the net payment of loans partly negated by the increase in liabilities for crude and finished products on account of higher volume and price.

**Derivative liabilities** stood lower by ₱ 164 million to close at **₱ 439 million** due to lower marked-to-market loss on currency hedge positions partly offset by higher loss on outstanding commodity hedges.

**Income tax payable** rose from ₱ 183 million to **₱ 271 million** traced chiefly to Petron Malaysia's higher tax payable on reported earnings for the current period.

**Retirement benefits liability** of **₱ 5.91 billion** showed a 7% increase from the ₱ 5.51 billion balance at end-2015 due to the accrual of additional retirement benefit costs.

**Deferred tax liabilities - net** surged by 20% (₱ 911 million) to **₱ 5.55 billion** primarily traced from temporary differences in inventory valuation and depreciation as well as the application of excess minimum corporate income tax to the current year's income tax due.

**Other noncurrent liabilities** escalated to **₱ 967 million** or by 7% ₱ 61 million with the increase in LPG cylinder deposits.



The negative balance of **Other reserves** stood lower at **₱ 4.74 billion** from ₱ 5.56 billion as at December 31, 2015 due mainly to foreign exchange translation gains on investment in foreign subsidiaries.

With the Parent Company's purchase of the remaining minority interest in one of its subsidiaries in July 2016, the **non-controlling interests** ended **₱ 73 million negative**, a turnaround from ₱ 471 million balance as of end-2015.

### **Cash Flows**

Cash and cash equivalents stood at **₱ 19.63 billion** as of September 30, 2017. Cash generated from company operations, net of working capital requirements and payments of interest and taxes, reached **₱ 20.84 billion**. The excess cash from operations was used to fund the company's capital programs at the refinery and terminals and network expansion, payments of dividends and distributions and in settlement of loans. Net increase in cash for the three quarters of 2017 amounted to ₱ 2.30 billion.

In Million Pesos	September 30, 2017	September 30, 2016	Change
Operating inflows	20,837	19,430	1,407
Investing outflows	(6,258)	(1,085)	(5,173)
Financing outflows	(12,371)	(25,849)	13,478

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

Ratio	September 30, 2017	December 31, 2016
Current Ratio	0.93	0.79
Debt to Equity Ratio	2.33	2.59
Return on Equity (%)	16.28	12.59
Interest Rate Coverage Ratio	3.39	2.90
Assets to Equity Ratio	3.33	3.59

**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** – Trailing 12 months' net income divided by average total stockholders' equity.

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

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

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

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

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

## **PART II – OTHER INFORMATION**

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

NONE.

**SIGNATURES**



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

Registrant: PETRON CORPORATION

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

Date: November 16, 2017

Principal Financial/Accounting Officer/Controller

Signature and Title:   
DENNIS S. JANSON  
Assistant Vice President - Controllers 

Date: November 16, 2017

**PETRON CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**

<b>Financial Ratios</b>	<b>Formula</b>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Liquidity</b>			
a) Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<b>0.93</b>	0.79
<b>Solvency</b>			
b) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	<b>2.33</b>	2.59
c) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.33</b>	3.59
<b>Profitability</b>			
d) Return on Average Equity <sup>a</sup>	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	<b>16.28%</b>	12.59%
e) Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$	<b>3.39</b>	2.90

<sup>a</sup> *trailing 12 months net income*