SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)
   Jan 12, 2018
2. SEC Identification Number
   31171
3. BIR Tax Identification No.
   000-168-801
4. Exact name of issuer as specified in its charter
   PETRON CORPORATION
5. Province, country or other jurisdiction of incorporation
   Philippines
6. Industry Classification Code(SEC Use Only)

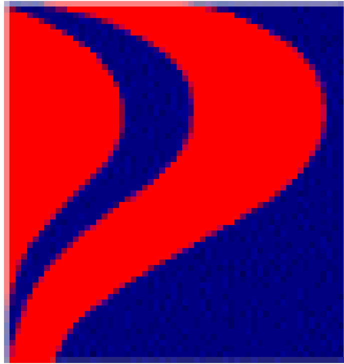
7. Address of principal office
   San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
   Postal Code
   1550
8. Issuer's telephone number, including area code
   (63 2) 886-3888, 884-9200
9. Former name or former address, if changed since last report
   N/A
10. Securities registered 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. Indicate the item numbers reported herein

Item 9.

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 Corporation
PCOR

PSE Disclosure Form 4-30 - Material Information/Transactions
References: SRC Rule 17 (SEC Form 17-C) and
Sections 4.1 and 4.4 of the Revised Disclosure Rules

Subject of the Disclosure
Final offering circular relating to the proposed offering by the Company of US Dollar-denominated undated unsubordinated capital securities.
Background/Description of the Disclosure
Final offering circular relating to the proposed offering by the Company of US Dollar-denominated undated unsubordinated capital securities.
Other Relevant Information
Please see attached letter dated January 12, 2018.

Filed on behalf by:

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

January 12, 2018

PHILIPPINE STOCK EXCHANGE, INC.
Disclosure Department
3rd Floor, Philippine Stock Exchange Center
Ayala Triangle, Ayala Avenue
Makati City

Attention: **Mr. Jose Valeriano B. Zuño III**
OIC - Head, Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue cor. Paseo de Roxas
Makati City

Attention: **Ms. Vina Vanessa S. Salonga**
Head – Issuer Compliance and Disclosure Department

Gentlemen:

Further to our disclosure yesterday, January 11, 2018, relating to the proposed offering by the Company of US Dollar-denominated undated unsubordinated capital securities, please find attached a copy of the final offering circular.

Very truly yours,

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

This communication is for information purposes only and does not constitute or form part of an invitation or offer to acquire, purchase or subscribe for the securities referred to herein. This announcement is not, and is not intended to be, an offer of securities of the Company referred to herein for sale, or the solicitation of an offer to buy securities of the Company, in the United States or in any other jurisdiction. The securities referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws of the United States or any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption under, or in a transaction not subject to, the U.S. Securities Act. This communication and the information contained herein are not for distribution, directly or indirectly, in or into the United States or in any other jurisdiction in which such distribution is prohibited. No public offer of the securities referred to herein is being or will be made in the United States or in any other jurisdiction.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

Important: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN AN OFFERING CIRCULAR THAT WILL BE DISTRIBUTED TO YOU ON OR PRIOR TO THE CLOSING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENTS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of the Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Offering Circular to any other person.

The materials relating to any offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers (as defined in the Offering Circular) or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers or any person who controls any of the Joint Lead Managers or any director, officer, employee or agent of any of the Joint Lead Managers or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Lead Managers. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee (as defined in the Offering Circular) or the Agents (as defined in the Offering Circular) or any of their respective affiliates, employees, directors, advisors, agents or representatives as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives. None of the Joint Lead Managers, the Trustee and the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives has independently verified any of the information contained in this Offering Circular (financial, legal or otherwise) and can give any assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the securities. Each potential investor of the securities should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the securities should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

None of the Company, the Joint Lead Managers, the Trustee or the Agents has authorised the provision of information different from that contained in this Offering Circular, to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, any of the Joint Lead Managers, the Trustee or the Agents. The information contained in this Offering Circular is accurate in all material respects only as at the date of this Offering Circular, regardless of the time of delivery of this Offering Circular or of any sale of the securities. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has not been a change in affairs of the Company and its subsidiaries or any of them or that the information set forth herein is correct in all material respects as at any date subsequent to the date hereof.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee or the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy or completeness of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee and the Agents or any of their respective employees, affiliates, directors, agents or advisors accepts any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any of their respective employees, affiliates, directors, agents or advisors or on its or their behalf in connection with the Company and its subsidiaries or the issue and offering of the securities. Each of the Joint Lead Managers, the Trustee and the Agents or any of their respective employees, affiliates, directors, agents or advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives undertakes to review the financial condition or affairs of the Company and its subsidiaries for so long as the Securities remain outstanding nor to advise any investor or potential investor of the securities of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates.

Petron Corporation

(a company incorporated with limited liability under the laws of the Republic of the Philippines)

US$500,000,000 Senior Perpetual Capital Securities

Issue price: 100.0%

The US$500,000,000 senior perpetual capital securities (the "**Securities**") are issued by Petron Corporation ("**Petron**" or the "**Company**"). The Securities confer a right to receive distributions (each, a "**Distribution**") at the applicable rate described below for the period from and including January 19, 2018 or from and including the most recent Distribution Payment Date (as defined in the Terms and Conditions of the Securities) to, but excluding, the next Distribution Payment Date or any redemption date. Subject to Condition 4.5 (*Optional Deferral of Distributions*), Distributions are payable semi-annually in arrears on the Distribution Payment Dates in each year. "**Distribution Payment Dates**" are defined as January 19 and July 19 of each year, commencing on July 19, 2018. Unless previously redeemed in accordance with the Terms and Conditions of the Securities and subject to Condition 4.4 (*Increase in Rate of Distribution*), Distributions (i) from and including January 19, 2018 to, but excluding, July 19, 2023 (the "**Step Up Date**") shall accrue on the outstanding principal amount of the Securities at 4.6% per annum (the "**Initial Rate of Distribution**") and (ii) from and including each Reset Date (as defined in the Terms and Conditions of the Securities) (including the Step Up Date) to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at the relevant Reset Rate of Distribution (as defined in the Terms and Conditions of the Securities).

The Company may, in its sole and absolute discretion, on any day which is not less than five Business Days (as defined in the Terms and Conditions of the Securities) prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date (i) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities (each as defined in the Terms and Conditions of the Securities) of the Company, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Company or (ii) at the discretion of the Company, any Junior Securities or Parity Securities have been redeemed, repurchased or otherwise acquired by the Company or any of its subsidiaries. Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date (as defined in the Terms and Conditions of the Securities). Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution (as defined in the Terms and Conditions of the Securities) as the principal amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Securities are undated securities in respect of which there is no fixed redemption date. Subject to applicable law, the Company may redeem the Securities (in whole but not in part) on the Step Up Date or any subsequent Distribution Payment Date at the Redemption Price (as defined in the Terms and Conditions of the Securities), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). The Securities may also be redeemed (in whole but not in part) at the option of the Company at the Redemption Price upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined in the Terms and Conditions of the Securities). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company (A) upon the occurrence of Change of Control Event (as defined in the Terms and Conditions of the Securities) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined in the Terms and Conditions of the Securities) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence of a Reference Security Default Event (as defined in the Terms and Conditions of the Securities) at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (as defined in the Terms and Conditions of the Securities) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price or (D) in the event less than 25% of the aggregate principal amount of the Securities originally issued remain outstanding, (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

The Securities are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the Securities may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. For further details, see "Subscription and Sale."

Investing in the Securities involves certain risks. See "Risk Factors" beginning on page 19.

THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE PHILIPPINE SECURITIES REGULATION CODE ("PHILIPPINE SRC"). ANY FUTURE OFFER OR SALE OF THE SECURITIES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE PHILIPPINE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

Approval in-principle has been obtained from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Securities on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Securities to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company or the Securities. The Securities will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 for as long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require.

The Securities will be evidenced by a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**").

For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for individual certificates, and unless the Company obtains an exemption from the SGX-ST, the Company will appoint and maintain a paying agent in Singapore where the individual certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for individual certificates, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual certificates, including details of the paying agent in Singapore.

Sole Global Coordinator

HSBC

Joint Lead Managers and Joint Bookrunners
in alphabetical order

ANZ **DBS Bank Ltd.** **Deutsche Bank** **HSBC** **Standard Chartered Bank** **UBS**

Offering Circular dated January 11, 2018

In this Offering Circular, unless the context otherwise requires, references to the "**Company**", the "**Issuer**" and "**Petron**" refer to Petron Corporation or Petron Corporation and its consolidated subsidiaries, as the context requires, the "**Sole Global Coordinator**" refers to The Hongkong and Shanghai Banking Corporation, Singapore Branch ("**HSBC**") and the "**Joint Lead Managers**" refers to Australia and New Zealand Banking Group Limited ("**ANZ**"), DBS Bank Ltd. ("**DBS**"), Deutsche Bank AG, Singapore Branch ("**Deutsche Bank**"), HSBC, Standard Chartered Bank ("**SCB**") and UBS AG Singapore Branch ("**UBS**") in their capacity as Joint Lead Managers and Joint Bookrunners.

The Company, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains all information with respect to the Company and the Securities, which is material in the context of the issue and offering of the Securities; (ii) the statements contained in it relating to the Company are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Company or the Securities, the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

Prospective investors should rely only on the information contained in this Offering Circular. The Company and the Joint Lead Managers have not authorized anyone to provide prospective investors with information that is different. The information in this document may only be accurate on the date of this Offering Circular. Nothing in this Offering Circular should be relied upon as a promise or representation as to future results or events, and neither the delivery of this Offering Circular nor any offering or sale of the Securities shall under any circumstances imply that there has been no change in the affairs of the Company or that the information herein is correct as of any date subsequent to the date hereof.

This Offering Circular is being furnished by the Company in connection with an offering exempt from the registration requirements under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") solely for the purpose of enabling a prospective investor to consider whether to purchase the Securities. The information contained herein has been provided by the Company and other sources identified herein. None of the Joint Lead Managers, DB Trustees (Hong Kong) Limited (the "**Trustee**") or the Agents (as defined in the Terms and Conditions of the Securities) has independently verified the information contained herein and, to the fullest extent permitted by law, assumes no responsibility for its accuracy. No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee or the Agents as to the accuracy or completeness of such information, and nothing contained herein is, or may be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee or the Agents as to the past, present or the future. None of the Joint Lead Managers, the Trustee or the Agents accepts any liability in relation to the information contained in or omitted from this Offering Circular or any other information provided by the Company, or for any other statement made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any person on any of their behalf in connection with the Company or in connection with the offering of the Securities. The Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise that any of them might otherwise have in respect of this Offering Circular or any such statement. Further, none of the Joint Lead Managers, the Trustee or the Agents undertake to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents, as the case may be.

References to "**US$**" and "**U.S. dollars**" in this Offering Circular are to United States dollars, the lawful currency of the United States of America, references to "**₱**," "**Philippine Peso**," "**Peso**" and "**PHP**" are to the lawful currency of the Philippines and references to "**RM**," "**Ringgit Malaysia**," "**Ringgit**" and "**sen**" are to the lawful currency of Malaysia. The Company publishes its financial statements in Philippine Pesos. This Offering Circular contains translations of certain Philippine Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱51.073 = US$1.00, being the rate quoted on the BSP Reference Exchange Rate Bulletin on September 29, 2017. On January 4, 2018, the BSP rate was ₱49.857 = US$1.00. On the same date, the closing spot rate quoted by Bank Negara Malaysia was RM4.01 = US$1.00. See "Exchange Rates" for further information regarding the rates of exchange between (i) the Philippine Peso and the U.S. dollar and (ii) the Ringgit Malaysia and the U.S. dollar.

All references in this Offering Circular to the "**Philippines**" are to the Republic of the Philippines. Certain acronyms, technical terms and other abbreviations used are defined in the "Glossary" of this Offering Circular.

The financial information included in this Offering Circular has been derived from the consolidated financial statements of the Company and its subsidiaries. Unless otherwise indicated, the description of the Company's business activities in this Offering Circular is presented on a consolidated basis. Unless otherwise indicated, financial information in this Offering Circular has been prepared in accordance with Philippine Financial Reporting Standards ("**PFRS**").

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

Certain information in this Offering Circular relating to the Philippines, Malaysia and the industry in which the Company's business operates, including statistics relating to market size and market share, is derived from various internal surveys, market research, government data, private publications and/or the Company's internal assumptions and estimates. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate, complete, up-to-date or consistent with information compiled within or outside the Philippines or Malaysia. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company, the Joint Lead Managers, nor the Trustee and the Agents make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

The distribution of this Offering Circular and the offering and sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes must inform themselves about and observe any such restrictions. There are restrictions on the distribution of this Offering Circular and the offer and sale of the Securities in certain jurisdictions, including the United States, the United Kingdom, Singapore, Hong Kong, Japan, the European Economic Area and the Philippines. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in any circumstance in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

Each person investing in the Securities shall be deemed to acknowledge that:

- it has been afforded an opportunity to request from the Company and to review, and has received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained herein;

- it has had the opportunity to review all of the documents described herein;
- it has not relied on the Joint Lead Managers, the Trustee, the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of the information contained in the Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Securities other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorized by the Company, the Joint Lead Managers, the Trustee or the Agents.

Prospective investors should not construe the contents of this Offering Circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the Securities.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Company, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular, or recipient of any other information supplied in connection with the offering of the Securities, should purchase the Securities. In making an investment decision, prospective investors must rely on their own investigation, examination and analysis of the Company and the terms of the Securities, including, without limitation, the merits and risks involved, an assessment of the Company's creditworthiness, such prospective investor's own determination of the suitability of any such investment with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. None of the Company, the Joint Lead Managers, the Trustee or the Agents is making any representation to any prospective investor regarding the legality of an investment in the Securities by such investor under any legal investment or similar laws or regulations. No person should construe the contents of this Offering Circular as legal, business or tax advice and each person should be aware that it may be required to bear the financial risks of any investment in the Securities for an indefinite period of time. The offering of the Securities is being made on the basis of this Offering Circular. Any decision to invest in the Securities must be based on the information contained in this Offering Circular. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Securities.

Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Securities or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Company, the Joint Lead Managers, the Trustee or the Agents shall have any responsibility therefor.

Each person receiving this Offering Circular is advised to read and understand the contents of this Offering Circular before investing in the Securities. If in doubt, such person should consult his or her advisors. The Company reserves the right to withdraw this offering of the Securities at any time. The Company and the Joint Lead Managers also reserve the right to reject any offer to purchase the Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Securities sought by such investor.

This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any securities offered hereby in any circumstances in which such offer is unlawful.

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

In accordance with the manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See "Subscription and Sale — Selling Restrictions." Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

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ENFORCEABILITY OF CIVIL LIABILITIES

The Company is established in the Philippines and most of its assets are located in the Philippines and Malaysia. Substantially all of its directors and senior management reside in the Philippines and all or a substantial portion of their assets are located in the Philippines. The Company has been advised by its Philippine legal counsel, Picazo Buyco Tan Fider & Santos, that a final and conclusive judgment on the merits rendered against the Company and these persons by courts outside the Philippines obtained in an action predicated upon the civil liability provisions of laws other than Philippine laws would be recognized and enforced by the courts in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) such persons had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of law or fact and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

The Company also has operations in Malaysia. A judgment obtained against the Company in a court of a reciprocating country (as listed in the First Schedule of the Reciprocal Enforcement of Foreign Judgments Act 1958 (Revised 1972) of Malaysia (the "**Enforcement Act**")) in respect of any sum payable by the Company may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the Enforcement Act within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum against the Company in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed above. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

See "Risk Factors — Risks relating to the Philippines and Malaysia — Investors may face difficulties enforcing judgments against the Company."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements." Some of these statements can be identified by forward-looking terms, such as "anticipate," "believe," "can," "could," "estimate," "expect," "intend," "may," "plan," "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Company's business strategy, its revenue and profitability (including, without limitation, any financial or operating projections or forecasts), planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular involve known and unknown risks, uncertainties and other factors that may cause the Company's actual financial results, performance or achievements to be materially different from any future financial results, performance or achievements expressed or implied by such forward-looking statements or other projections.

The factors that could cause the Company's actual results to be materially different include, among others:

- changes in crude oil prices;
- general political and economic conditions in the Philippines, Malaysia and elsewhere in the Asia-Pacific region;
- changes in currency exchange rates;
- accidents, natural disasters or other adverse incidents in the operation of the Company's facilities;
- terms on which the Company finances its working capital and capital expenditure requirements;
- the ability of the Company to successfully implement its strategies;
- changes in governmental regulations, including those pertaining to regulation of the oil industry, zoning, tax, subsidies, operational health, safety and environmental standards; and
- competition in the oil industry in the Philippines and Malaysia.

Additional factors that could cause the Company's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors."

Should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected as well as from historical results. Specifically, but without limitation, revenues could decline, costs could increase, capital costs could increase, capital investments could be delayed and anticipated improvements in performance might not be realized fully or at all. Although the Company believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, prospective investors are cautioned not to place undue reliance on the forward-looking statements herein. In any event, these statements speak only as of the date hereof or the respective dates indicated herein, and the Company, the Joint Lead Managers, the Trustee and the Agents undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of the Company that appear elsewhere in this Offering Circular. Because it is a summary, it does not contain all of the information that a prospective investor should consider before investing in the Securities.

Business

Petron Corporation is the largest integrated oil refining and marketing company in the Philippines. It refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. The Company had an overall market share of approximately 31.5%* of the Philippine oil market in the first half of 2017 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the Philippine Department of Energy ("**DOE**").

The Company's IMS-certified Petron Bataan Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of the second phase of the Refinery Master Plan project ("**RMP-2**"), a US$2 billion project for the Petron Bataan Refinery enables the Company to produce more valuable White Products and increase the Company's production of petrochemicals. The completion of RMP-2 made the Company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 11 terminals in Luzon, nine in the Visayas and seven in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of approximately 2,300 retail service stations in the Philippines as of September 30, 2017, the Company sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited ("**Innospec**"), a global fuel additives supplier. Regional customers of Innospec and the Company's own requirements are served from the output of the Subic plant.

The Company diversified into petrochemicals and in 2000 added a mixed xylene recovery unit to the Petron Bataan Refinery and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in PAHL, which owns PPI through a wholly owned subsidiary, RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, the Company acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. As of July 25, 2016, the Company had increased its stake in PAHL to 100%.

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* Market share is derived from Company estimates based on Company information and data from the DOE for the first half of 2017. Company estimates exclude all direct imports by end users.

The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. For the third quarter of 2017, the Company ranked third in the Malaysian retail market with a 19.7% market share based on Company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research (now known as "The Concilium Group Sdn Bhd"), a market research consultant appointed by Malaysian retail market participants to compile industry data. With this acquisition, the Company extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue ("**LSWR**"). As of September 30, 2017, the Company had 10 product terminals and a network of approximately 600 retail service stations in Malaysia.

The Company's products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. The Company's revenues from these export sales amounted to ₱27.9 billion, or 8.1% of total sales, in 2016, and ₱26.5 billion, or 8.5% of total sales, for the nine months ended September 30, 2017.

In 2014, 2015 and 2016, and the first nine months of 2017, the Company's sales were ₱482.5 billion, ₱360.2 billion, ₱343.8 billion and ₱313.5 billion, respectively, and net income was ₱3.0 billion, ₱6.3 billion, ₱10.8 billion and ₱11.8 billion, respectively.

Strengths

The Company believes that its principal competitive strengths include the following:

- Market leadership in the Philippine downstream oil sector.
- Established position in the Malaysian downstream oil sector.
- Operating a highly complex refinery.
- Operations in markets with favorable industry dynamics.
- Differentiated service experience driving retail volumes.
- Experienced management team and employees and strong principal shareholder in San Miguel Corporation.

Strategies

The Company's principal strategies are set out below:

- Maximize production of high margin refined petroleum products and petrochemicals.
- Further increase market share in the downstream oil markets in the Philippines and Malaysia.
- Continue investments to increase operational efficiency and profitability and to increase market reach.
- Pursue selective synergistic acquisitions.

Corporate Information

Petron Corporation was incorporated under the laws of the Philippines in 1966. The Company's head office and principal place of business is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines. The Company's telephone number at this location is (632) 886-3888. The Company's primary website is www.petron.com. Information contained on the Company's website does not constitute a part of this Offering Circular. The Company's common shares are listed and traded on the Philippine Stock Exchange, Inc. under the symbol "PCOR", while its Series 2 preferred shares are listed and traded on the same exchange under the symbols "PRF2A" and "PRF2B." The Company's US$750,000,000 undated subordinated capital securities are listed on the Stock Exchange of Hong Kong Limited (Stock Code: 5905).

Recent Developments

On October 20, 2017, the Company filed a complaint before the Regional Trial Court of Mandaluyong City against the Philippine National Oil Company ("**PNOC**") for resolution, reconveyance and damages arising from PNOC's unilateral disregard and fundamental breach of the renewal clauses of certain lease agreements covering parcels of land on which the Company's refinery, 23 bulk plants and 66 services stations are located. See "Business — Legal Proceedings."

On October 10, 2017, the Company drew US$400 million from its US$1 billion term loan facility signed in June 16, 2017. Proceeds were used to settle the Company's ₱20,000,000,000 7.0% PHP-Denominated Notes due 2017.

On November 10, 2017, the Company's ₱20,000,000,000 7.0% PHP-Denominated Notes due 2017 payable in U.S. Dollars ("**Global Peso Notes**") matured. The Company fully paid the Global Peso Notes using proceeds from a US$1,000,000,000 term loan facility agreement executed on June 16, 2017.

On December 29, 2017, the Company executed a ₱10 billion bilateral facility to fund permanent working capital requirements.

SUMMARY FINANCIAL INFORMATION

The following tables present summary consolidated financial information for the Company and should be read in conjunction with the auditors' reports and with the Company's consolidated financial statements and notes thereto and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Offering Circular. The summary financial information presented below as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 have been derived from the audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, audited by R.G. Manabat & Co. The summary financial information presented below as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 have been derived from the Company's unaudited interim consolidated financial information, reviewed by R.G. Manabat & Co. The consolidated financial information of the Company as of and for the nine months ended September 30, 2016 and 2017 have not been audited by the Company's independent auditor. As a result, the consolidated financial statements of the Company as of and for the nine months ended September 30, 2016 and 2017 should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Company's financial condition and results of operations. The Company's financial information included in this Offering Circular has been prepared in accordance with PFRS. The information below is not necessarily indicative of the results of future operations. Each of the Joint Lead Managers and any of their respective affiliates, directors, officers and advisers disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Company.

Summary Consolidated Statement of Income

	(Audited)				(Unaudited)		
	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	482,535	360,178	343,840	6,732	247,770	313,505	6,138
Cost of goods sold	463,404	328,734	306,125	5,994	221,164	281,151	5,505
Gross profit	19,131	31,444	37,715	738	26,606	32,354	633
Selling and administrative expenses	(11,526)	(13,310)	(13,918)	(272)	(9,765)	(10,283)	(201)
Interest expense and other financing charges	(5,528)	(5,533)	(7,557)	(148)	(5,496)	(6,523)	(127)
Interest income	844	686	507	10	379	359	7
Share in net income of an associate	102	133	66	1	77	63	1
Other income (expenses) — net	790	(3,495)	(2,435)	(47)	(1,244)	(400)	(8)
Income before income tax	3,813	9,925	14,378	282	10,557	15,570	305
Income tax expense	804	3,655	3,556	70	3,130	3,809	75
Net income	3,009	6,270	10,822	212	7,427	11,761	230

Summary Consolidated Statement of Financial Position

	(Audited)			(Unaudited)		
	As of December 31,			As of September 30,		
	2015	2016	2016	2016	2017	2017
	(in millions of ₱)		(in millions of US$)	(in millions of ₱)		(in millions of US$)
Current assets:						
Cash and cash equivalents	18,881	17,332	339	11,540	19,628	384
Financial assets at fair value through profit or loss	509	221	4	1,112	465	9
Available-for-sale financial assets	233	71	1	52	205	4
Trade and other receivables — net	30,749	31,548	618	26,608	32,204	631
Inventories	30,823	44,147	865	37,140	45,297	887
Other current assets	34,530	32,499	636	35,164	32,503	636
	115,725	125,818	2,463	111,616	130,302	2,551
Asset held for sale	—	—	—	—	1,760	35
Total current assets	115,725	125,818	2,463	111,616	132,062	2,586
Non-current assets:						
Available-for-sale financial assets	388	408	8	414	276	5
Property, plant and equipment — net	161,597	176,604	3,458	159,081	177,465	3,475
Investment in shares of stock of an associate	1,814	1,883	37	1,893	—	—
Investment property — net	112	91	2	92	90	2
Deferred tax assets — net	211	194	4	225	202	4
Goodwill — net	7,694	7,480	146	8,029	8,094	158
Other non-current assets — net	6,726	6,415	126	4,713	5,885	115
Total non-current assets	178,542	193,075	3,781	174,447	192,012	3,759
Total assets	294,267	318,893	6,244	286,063	324,074	6,345
Current liabilities:						
Short-term loans	99,481	90,366	1,769	83,963	71,748	1,405
Liabilities for crude oil and petroleum products	16,271	29,966	587	21,579	32,969	646
Trade and other payables	9,347	16,161	316	9,009	11,970	234
Derivative liabilities	603	778	15	439	1,364	27
Income tax payable	183	626	12	271	1,032	20
Current portion of long-term debt — net	694	20,911	410	5,847	22,890	448
Total current liabilities	126,579	158,808	3,109	121,108	141,973	2,780
Non-current liabilities						
Long-term debt — net of current portion	71,726	58,941	1,154	65,591	69,919	1,369
Retirement benefits liability	5,509	3,315	65	5,907	3,593	70
Deferred tax liabilities — net	4,638	5,726	112	5,549	7,296	143
Asset retirement obligation	1,809	2,324	46	1,880	2,449	48
Other non-current liabilities	906	959	19	967	1,464	29
Total non-current liabilities	84,588	71,265	1,396	79,894	84,721	1,659
Total liabilities	211,167	230,073	4,505	201,002	226,694	4,439
Equity Attributable to Equity Holders of the Parent Company*						
Capital stock	9,485	9,485	186	9,485	9,485	186
Additional paid-in capital	19,653	19,653	385	19,653	19,653	385
Undated subordinated capital securities	30,546	30,546	598	30,546	30,546	598
Retained earnings	41,712	42,011	822	43,393	47,166	923
Equity reserves	(8,767)	(7,204)	(141)	(7,943)	(4,963)	(97)
Treasury stock	(10,000)	(10,000)	(196)	(10,000)	(10,000)	(196)
Total Equity Attributable to Equity Holders of the Parent Company	82,629	84,491	1,654	85,134	91,887	1,799
Non-controlling interests	471	4,329	85	(73)	5,493	107
Total equity	83,100	88,820	1,739	85,061	97,380	1,906
Total liabilities and equity	294,267	318,893	6,244	286,063	324,074	6,345

* *Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.*

Summary Consolidated Statement of Cash Flows

	(Audited)				(Unaudited)		
	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by (used in) operating activities	(737)	8,468	29,269	573	19,430	20,837	408
Net cash flows used in investing activities	(4,336)	(14,592)	(19,165)	(375)	(1,085)	(6,258)	(123)
Net cash flows provided by (used in) financing activities	45,165	(66,343)	(12,025)	(235)	(25,849)	(12,371)	(242)
Effect of exchange rate changes on cash and cash equivalents	112	746	372	7	163	88	2
Net increase (decrease) in cash and cash equivalents	40,204	(71,721)	(1,549)	(30)	(7,341)	2,296	45
Cash and cash equivalents at beginning of year	50,398	90,602	18,881	369	18,881	17,332	339
Cash and cash equivalents at end of year	90,602	18,881	17,332	339	11,540	19,628	384

Other Financial and Operating Data

	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱ except sales volume and ratios)			(in millions of US$)	(in millions of ₱ except sales volume and ratios)		(in millions of US$)
Sales volume ('000 barrels per day)	239	271	289	n/a	289	294	n/a
Net debt[(1)]	114,915	153,020	152,886	2,993	143,861	144,929	2,838
Ratio of total debt to equity	1.81	2.07	1.92	n/a	1.83	1.69	n/a
Ratio of net debt to equity	1.01	1.84	1.72	n/a	1.69	1.49	n/a
EBITDA[(2)]	23,718	28,654	29,510	578	30,090[(7)]	37,095[(7)]	726
Capital expenditures[(3)]	15,922	16,388	23,226	455	2,655	6,972	137
Total debt[(4)]	205,517	171,901	170,218	3,333	155,401	164,557	3,222
Ratio of EBITDA to net interest expense[(5)]	5.06	5.91	4.19	n/a	4.79[(8)]	4.58[(8)]	n/a
Ratio of net adjusted debt to EBITDA[(6)]	3.44	5.56	5.05	n/a	4.97[(9)]	4.25[(9)]	n/a

(1) Net debt represents the sum of short-term loans, current portion of long-term debts — net and long-term debts — net of current portion, less cash and cash equivalents.

(2) The Company defines EBITDA as income from operations plus depreciation & amortization plus/minus inventory loss/gain and realized commodity hedging loss/gain for a 12-month period. Income from operations is computed as gross profit less selling and administrative expenses. EBITDA is not a standard measure of the Company's financial condition or liquidity under PFRS. EBITDA should not be considered in isolation or construed as an alternative to net income or any other performance measures derived in accordance with PFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. The Company has included EBITDA because it believes it is a useful supplement to net income in measuring its operating performance. Other companies in the industry may calculate EBITDA differently or may use it for different purposes than the Company does, limiting its usefulness as a comparative measure.

The table below provides a computation for EBITDA.

	For the years ended December 31,				For the twelve months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Gross profit	19,131	31,444	37,715	738	35,006	43,463	851
Deduct:							
Selling and administrative expenses	(11,526)	(13,310)	(13,918)	(272)	(13,693)	(14,436)	(283)
Net operating income	7,605	18,134	23,797	466	21,313	29,027	568
Add/deduct:							
Depreciation and amortization	6,033	6,272	9,505	186	8,601	10,448	205
Inventory Gain/Loss and Realized Commodity Hedging Gain/Loss - net	10,080	4,248	(3,792)	(74)	176	(2,380)	(47)
EBITDA	23,718	28,654	29,510	578	30,090	37,095	726

(3) Capital expenditures represent the sum of additions to property, plant and equipment for the period.

(4) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.

(5) Net interest expense represents interest expense and other financing charges less interest income.

(6) Net adjusted debt represents short-term loans, plus current portion of long-term debts — net and long-term debts — net of current portion as of the period-end date, less cash and cash equivalents as of the period-end date. For the purpose of calculating this ratio, for each of the years ended December 31, 2014, 2015 and 2016 and for each of the twelve months ended September 30, 2016 and 2017, short-term loans are calculated as the average of the monthly closing balances of short-term loans. For the years ended December 31, 2014, 2015, and 2016 and for the twelve months ended September 30, 2016 and 2017, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the corresponding period then ended.

(7) Computed as EBITDA for last 12 months ending September 30.

(8) Computed as EBITDA (for the last 12 months ending September 30) divided by net interest expense at the end of 12-month period ended September 30.

(9) Computed as EBITDA (for the last 12 months ending September 30) divided by net adjusted debt at the end of the 12-month period ended September 30.

SUMMARY OF THE OFFERING

The following is a brief summary of certain terms of the Securities. For a more complete description of the terms of the Securities, see "Terms and Conditions of the Securities." Capitalized terms not otherwise defined herein shall have the meanings set forth under "Terms and Conditions of the Securities."

Issuer	Petron Corporation, a company incorporated with limited liability under the laws of the Republic of the Philippines.
Securities Offered	US$500,000,000 senior perpetual capital securities.
Status of the Securities	The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. The claims of the holders, in respect of the Securities, including in respect of any claim to Arrears in Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank at least *pari passu* with each other and with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer.
No Set-off	To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.
Initial Rate of Distribution	4.6% per annum plus any increase pursuant to Condition 4.4 (*Increase in Rate of Distribution*).
Issue Price	100.0%
Form and Denomination	The Securities are issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
Distributions	Subject to Condition 4.4 (*Increase in Rate of Distribution*) and Condition 4.5 (*Optional Deferral of Distributions*), the Securities will confer a right to receive distributions ("**Distributions**"): (a) from the period commencing on (and including) the Issue Date to (but excluding) July 19, 2023 (the "**Step Up Date**"), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrears on January 19 and July 19 of each year (each a "**Distribution Payment Date**") commencing on July 19, 2018.

"**Reset Date**" means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

Increase in Rate of Distribution . . . . . 2.50% per annum.

Optional Deferral of Distributions . . . The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the 6 months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the "**Deferral Election Event**"). Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Issuer will notify the Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the "**Deferral Election Notice**"). Deferral of a Distribution pursuant to Condition 4.5(a) (*Optional Deferral of Distributions*) will not constitute a default by the Issuer or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

"**Compulsory Distribution Payment Event**" means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution

or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

Restrictions in the case of Deferral . . . If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

(a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or

(b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

Payments of Arrears of Distribution . . The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.

Payment Reference Date means the date which is the earliest of:

(i) the date on which the Securities are redeemed in accordance with Condition 5;

(ii) the date on which an order is made for the Winding-Up of the Issuer;

(iii) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event; and

(iv) the date of any substitution or modification of the Securities pursuant to Condition 13.

Expected Closing Date	January 19, 2018.
Redemption	The Securities are perpetual securities in respect of which there is no fixed redemption date. Unless previously redeemed or purchased and cancelled in accordance with the following provisions of Condition 5 (without prejudice to Condition 10), the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its constituent documents (including its articles of incorporation, which currently provide for the Issuer's corporate term to expire on December 22, 2066). If the corporate term of the Issuer is extended, the maturity date of the Securities will automatically and correspondingly be extended.
Redemption at the Option of the Issuer	Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on: (a) the Step Up Date; or (b) any Distribution Payment Date falling after the Step Up Date, in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Early Redemption due to a Gross-up Event	If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

(a) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(b) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

"**Gross-up Event**" means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after January 19, 2018, the Issuer has or will become obliged to pay Additional Amounts; provided that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided further that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after January 19, 2018, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 30%.

Early Redemption due to a Change of Control Event	If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). A "**Change of Control Event**" means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders. "**Permitted Holders**" mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.
Early Redemption due to a Reference Security Default Event	If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). "**Reference Security Default Event**" means an event of default occurs pursuant to (i) clause (b) of the Events of Default of the Issuer's outstanding ₱7,000,000,000 4.5219% p.a. PHP-denominated bonds due October 27, 2023 (*Bloomberg identifier: A0291289*) (the "**Initial Referenced Senior Notes**"), or (ii) similar condition of any other foreign currency or PHP-denominated debt security with an international tranche issued under Regulation S of the U.S. Securities Act and outstanding after the Issue Date, which debt security has the latest occurring scheduled maturity date (the "**Superseding Referenced Senior Notes**"), as a result of the Issuer's default in, non-compliance with or non-performance of the covenants of the Issuer under the Initial Referenced Senior Notes or similar covenants of the Superseding Referenced Senior Notes, as the case may be, as respectively amended from time to time.

Early Redemption due to an Accounting Event	If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). An "**Accounting Event**" means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.
Redemption of Securities in the case of Minimal Outstanding Amounts . .	In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part): (a) at any time prior to the Step Up Date, at the Special Redemption Price; or (b) on or at any time after the Step Up Date, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Taxation and Additional Amounts	All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer, the Issuer shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except in certain circumstances. See Condition 7 (*Taxation and Gross-up*).

Limited Rights to Institute Proceedings	Notwithstanding any of the provisions in Condition 10 (*Non-Payment*), the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5 (*Optional Deferral of Distributions*). In addition, nothing in Condition 10 (*Non-Payment*), including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.
Proceedings for Winding-Up	If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 (*Entitlement of Trustee*) and, subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.
Substitution or Modification	The Trustee may, without the consent of the Securityholders, agree with the Issuer to: (a) the substitution in place of the Issuer (or of any previous substitute under Condition 13 (*Substitution or Modification to Remedy Gross-Up Event or Accounting Event*)) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or (b) the modification of the Terms and Conditions of the Securities to the extent reasonably necessary, in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that: (i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-Up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer;

	(ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and (iii) certain other conditions set out in the Trust Deed are complied with to the satisfaction of the Trustee.
Further Issues	The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities (which will be constituted by a deed supplemental to the Trust Deed) or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.
Listing and Trading	Approval in-principle has been obtained from the SGX-ST for the listing of, and permission to deal in, the Securities by way of debt issues to professional investors only.
Use of Proceeds	The net proceeds from the issue of the Securities, which will be approximately US$498.0 million (after the deduction of commissions), will be applied by the Company for the repurchase, refinancing and/or redemption of undated subordinated capital securities, the repayment of indebtedness and for general corporate purposes, including capital expenditures.
Selling Restrictions	The Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Securities may be sold in other jurisdictions (including the United Kingdom, Singapore, Hong Kong, Japan and the Philippines) only in compliance with applicable laws and regulations. See "Subscription and Sale."
ISIN	XS1740858540.
Common Code	174085854.
Governing Law	English law.
Trustee	DB Trustees (Hong Kong) Limited.
Principal Paying Agent, Calculation Agent and Transfer Agent	Deutsche Bank AG, Hong Kong Branch.
Registrar	Deutsche Bank AG, Hong Kong Branch.
Clearing Systems	Euroclear and Clearstream.

Prospective investors should carefully consider the following, in addition to the other information contained in this Offering Circular, including the financial statements and related notes, before making any investment decision relating to the Securities. The occurrence of any of the following events, or other risks that are not presently known or are now deemed immaterial, could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company, and prospective investors may lose all or part of their investment.

Risks Relating to the Company's Business and Operations

Volatility of the price of crude oil and petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's financial results are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for the crude oil that is the main raw material for these refined petroleum products. Crude oil accounted for approximately 46% and approximately 50% of the Company's total cost of goods sold in 2016 and for the nine months ended September 30, 2017, respectively.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which the Company has no control. Historically, international crude oil prices have been volatile, and they are likely to continue to be volatile in the future. For example, in the latter part of 2014, the global oil market was especially volatile with crude oil prices plunging by as much as approximately US$40/bbl in just four months. Dubai crude oil price declined from an average of approximately US$102/bbl in August 2014 to an average of approximately US$60/bbl in December 2014. The volatility continued, albeit at a more gradual manner, with oil prices extending their downward trend throughout 2015 until January 2016 when Dubai crude oil price reached a bottom of approximately US$23/bbl. Thereafter, crude prices steadily recovered with Dubai crude oil price averaging US$51/bbl for the nine months ended September 30, 2017.

The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. The Company may not be able to pass crude oil price fluctuations along to its consumers in a timely manner, or at all, due to regulatory restrictions or social and competitive concerns. The Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition. In addition, even if the Company were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases. In addition, the Company's Malaysian operations are subject to government price controls. See " — The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products."

Furthermore, a sharp rise in crude oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on the Company's financial condition and results of operations.

The Company relies primarily on a small number of suppliers for a significant portion of its crude oil requirements in each of the Philippines and Malaysia.

The Company purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company ("**Saudi Aramco**"). In 2016, the Company purchased majority of the total crude oil requirements of the Company's refinery in Limay, Bataan in the Philippines (the "**Petron Bataan Refinery**") from Saudi Aramco, the state-owned national oil company of Saudi Arabia. The Company has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually unless either the Company or Saudi Aramco decides to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of September 30, 2017, neither the Company nor Saudi Aramco has terminated the contract.

In addition, the Company also purchases a significant portion of the crude oil for its Philippine operations from Kuwait Petroleum Corporation ("**KPC**"). Petron has a contract with KPC to purchase various Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of September 30, 2017, neither the Company nor KPC has terminated the contract.

The supply of crude oil by Saudi Aramco and KPC is subject to a variety of factors beyond the Company's control, including political developments in and the stability of Saudi Arabia, Kuwait and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions in the Middle East.

In Malaysia, the Company purchases a significant portion of the Tapis crude oil and Terengganu condensate supply requirements for its refinery in Port Dickson (the "**Port Dickson Refinery**") from ExxonMobil Exploration and Production Malaysia, Inc. ("**EMEPMI**") pursuant to a long-term supply contract. The Company also purchases Malaysian crude oil from Petco Trading Labuan Company Ltd. and Murphy Sabah Oil Co. Ltd. under short-term supply contracts to supplement spot purchases.

A disruption in the operations of Saudi Aramco, KPC or of EMEPMI, or a decision by any of Saudi Aramco, KPC or EMEPMI to amend or terminate their respective contracts with the Company, could negatively impact the Company's crude oil supply. If the Company's supply of crude oil from Saudi Aramco, KPC or EMEPMI were disrupted, the Company would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers or the spot market could be at higher prices than the Company's purchases from Saudi Aramco, KPC or EMEPMI, which would adversely affect the Company's financial condition and results of operations.

The Petron Bataan Refinery is capable of processing various types of crude oil. The Company's crude oil optimization strategy includes the utilization of various types of crude oil to provide additional value to the Company. The completion of the second phase of the Company's Refinery Master Plan project at the Petron Bataan Refinery ("**RMP-2**") has given the Petron Bataan Refinery greater flexibility to use heavier, more sour alternative crude. The Port Dickson Refinery is designed to process sweet crude oil. The Company's crude oil optimization strategy for the Port Dickson Refinery includes diversification in processing different types of local as well as regional sweet crude oil. However, there can be no assurance that the Company will be able to successfully implement its crude oil optimization strategies and diversify to using other crude oil efficiently or in a timely manner.

If the Company is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially and adversely affected.

The Company's business, financial condition and results of operations may be adversely affected by intense competition and cyclicality in global and regional refining capacities.

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national,

regional and local competitors in the refined petroleum products business for market share of petroleum products sales. See "Business — Competition" for more information about the competition faced by the Company. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. The Company's Malaysian operations are subject to government price controls and quotas. As a result, competition in these market sectors is based primarily on the allocation of the applicable quotas by the Malaysian government. See "— The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products."

The Company's competitiveness will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain additional quotas from the Malaysian government. If the Company is unable to compete effectively, its financial condition and results of operations, as well as its business prospects, could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. The Company's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

Furthermore, the global and regional refining industry has historically experienced periods of tight supply, resulting in increased prices and margins, as well as periods of substantial capacity additions, resulting in oversupply and reduced prices and margins. Any downturn in prices or margins resulting from existing or future excess industry capacity could have a material adverse impact on the Company's business, financial condition and results of operations.

Any significant disruption in operations or casualty loss at the Company's refineries could adversely affect its business and results of operations and result in potential liabilities.

The Company's operation of its refineries and implementation of its expansion plans could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, in June 2016, there was a fire in the Port Dickson Refinery, which necessitated a 10-day plant shutdown. Through the Company's structured safety program, the fire was safely extinguished by trained Petron firefighters and the local fire department as well as personnel from the neighboring oil company. The incident required the activation of the Company's business continuity plan, including repairs and re-starting operations at the Port Dickson Refinery, and in the interim, managing incoming crude supply and continued supply of petroleum products to customers, to ensure the reliable and continuous supply of finished products. Although Port Dickson Refinery underwent a temporary shutdown to facilitate investigations and repair works, there was no significant impact on product supply due to the activation of the Company's business continuity plan. No injury was recorded and the incident left minimal impact on the environment. These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company has insurance policies that cover property damage, marine cargo, third party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption to mitigate the potential impact of these risks. However, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. The Company self-insures some risks which have a low probability of occurring

and for which insurance policies are not readily available or are priced unreasonably high. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products.

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism ("**APM**"), pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011." The Malaysian government may subsidize fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. Effective March 30, 2017, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on the Mean of Platts Singapore ("**MOPS**"). If government-mandated prices are lower than the fuel products' total built-up cost per the APM, the Company receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the fuel products' total built-up cost per the APM, the Company pays a balancing figure to the Malaysian government. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011." A substantial portion of the Company's revenue has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of diesel in Malaysia is subject to a quota system that applies to oil companies and eligible users and customers to ensure that subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not sold illegally to industrial or commercial customers at unregulated prices. Diesel sales at service stations that exceed the volumes permitted under the Company's or its customers' quotas are not eligible for government subsidies. Accordingly, in instances when the government-mandated prices are lower than the Company's total built-up costs, the Company endeavors to limit diesel sales to volumes covered by the quotas. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011." There can be no assurance that the Malaysian government will increase quotas, grant applications or not decrease the Company's quotas or those of any of its customers in the future. A substantial portion of the Company's revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase the Company's quotas or those of any of its selected transportation sector customers, the Company's financial condition and results of operations may be materially and adversely affected.

Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company's results of operations and financial condition.

The operations of the Company's business are subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of the Company's business. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Company, including the revocation or suspension of the Company's licenses or operation of its facilities.

The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. See "Regulatory and Environmental Matters — Philippines." For example, additional

facilities were built to comply with environmental requirements mainly in relation to RMP-2 from 2014 to 2015. These included a refinery wastewater treatment plant, sour water stripping facilities, sulphur recovery units, a flue gas desulfurizer and a flare system. There can be no assurance that the Company will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material.

In addition, safety, health, environmental and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. For example, in November 2001, the City of Manila, citing concerns of safety, security and health, passed an ordinance reclassifying the area occupied by the Company's main storage facility in Pandacan, Manila, from industrial to commercial, thereby prohibiting the continued operation of the Company's facility in Pandacan as a petroleum storage facility and necessitating relocation to other alternative sites in Luzon. In accordance with the Supreme Court decision in the case relating to the petroleum storage facilities in Pandacan, the Company ceased operations of its petroleum storage facilities in Pandacan in August 2015. The Company will eventually relocate its lubricant blending plant located in Pandacan to another site.

Another example is the mandatory compliance with Euro IV standards in the Philippines in 2016 and the implementation in Malaysia of various Euro 4M and Euro 5M compliant fuels in phases from 2014 through 2025. See "Regulatory and Environmental Matters — Malaysia — Environmental Laws — Environmental Quality Act, 1974." The Company has complied with the Euro IV standards in the Philippines and is making capital expenditures to ensure that the Port Dickson Refinery will comply with Euro 4M and Euro 5M standards, as these standards are mandated by the Malaysian government. If the Company fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the Company's financial condition and results of operations.

In addition, if the measures implemented by the Company to comply with applicable laws, regulations and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose the Company to potential liabilities, including administrative penalties. If the Company fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Company and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that the Company will not become involved in future litigation or other proceedings relating to safety, health and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to the Company's business and operations, regardless of the merits of the claims. There is no assurance that the Company will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which the Company's facilities are located or other locations and related litigation and other proceedings could materially and adversely affect the Company's financial condition and results of operations.

Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects.

Any potential increase in oil prices and environmental concerns could make it more attractive for the Company's customers to switch to alternative fuels such as natural gas, ethanol and palm oil methyl ester fuel blends. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by the Company, resulting

in lower sales volumes. In recent years, the Philippine government has enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline and diesel fuels sold or distributed by every oil company in the Philippines, and these types of requirements may be increased in the future. In Malaysia, the government initially mandated that all diesel used for automotive purposes be comprised of 5% palm oil methyl ester. This was subsequently increased to 7% in the second half of 2014. If the Company does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

The Company's business strategies require significant capital expenditures and financing, are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels.

The Company's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. The Company's ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. Specifically, the Company intends to (i) continue investment in the Petron Bataan Refinery to support the increased utilization of RMP-2 and improve refinery operations, (ii) continue the expansion of its retail service station, LPG and lubes network in the Philippines, (iii) expand and upgrade its logistics capacity, and (iv) expand Malaysia operations with new service stations and facilities improvements to the Port Dickson Refinery to enable it to produce Euro 5M-compliant fuels.

If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations and financial condition could be adversely affected. Furthermore, there can be no assurance that the Petron Bataan Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and logistical support for the Company's increased production resulting from the completion of RMP-2. Any of the foregoing factors could adversely affect the Company's business, financial condition and results of operations.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects. The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Changes in applicable taxes, duties and tariffs could increase the Company's operating costs and adversely affect its business, results of operations and financial condition.

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, duties for the import of crude oil and petroleum products into the Philippines were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% value-added tax ("**VAT**") on the sale or importation of petroleum products in 2006.

On December 19, 2017, the President of the Philippines signed into law package 1 of the Tax Reform for Acceleration and Inclusion ("**TRAIN**") or Republic Act No. 10963. The law contains amendments

to several provisions of the National Internal Revenue Code of 1997 ("**Philippine Tax Code**") relating to individual income taxation, passive income for both individuals and corporations, estate tax, donor's tax, VAT, excise tax, and documentary stamp tax, among others. Certain items of the TRAIN bill were vetoed by the President.

The increase in excise tax rates on petroleum products will significantly increase the excise taxes and VAT payable of the Company on its importation and production of petroleum products. For the period covering 2018 to 2020, there shall be a scheduled increase in the excise tax on fuel. However, the scheduled increase shall be suspended when the average Dubai crude oil price based on Mean of Platts Singapore (MOPS) for three 3 months prior to the scheduled increase of the month reaches or exceeds 80 USD per barrel.

In Malaysia, the system of import duties and sales taxes was replaced by a goods and service tax effective April 1, 2015.

There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's business, financial condition and results of operations.

The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso and the Ringgit Malaysia against the U.S. dollar.

The substantial majority of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while the substantial majority of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In 2016, and the nine month period ended September 30, 2017, approximately 54% and 51%, respectively, of the Company's revenues were denominated in Philippine Pesos, approximately 29% and 31%, respectively, of its revenues were denominated in Ringgit Malaysia, while approximately 75% and 70%, respectively, of its cost of goods sold were denominated in U.S. dollars. In addition, as of September 30, 2017, 32% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. From January 1, 2014 to September 29, 2017, the value of the Peso against the U.S. dollar fluctuated from a low of ₱43.280 to a high of ₱51.799. In the same period, the value of the Ringgit Malaysia against the U.S. dollar fluctuated from a low of RM3.15 per U.S. dollar to a high of RM4.50 per U.S. dollar. See "Exchange Rates." While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

The Company depends on experienced, skilled and qualified personnel and management team, and its business and growth prospects may be disrupted if it is unable to retain their services.

The Company depends on experienced, skilled and qualified personnel for the management and operation of its business. The loss of such experienced, skilled or qualified personnel may lead to operating challenges and increased costs. These challenges include lack of resources, loss of knowledge and the lengthy period of time associated with developing the necessary skill set. In this case, costs, including costs related to contract labor, productivity and safety, may rise. Failure to hire

and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to new employees, or the limited availability and rising cost of contract labor may adversely affect the Company's ability to manage and operate its business. The loss of a significant number of qualified personnel could adversely affect the Company's ability to compete in its industry, which in turn could have a material adverse effect on its business, results of operations and cash flows.

In addition, the Company signficantly relies on, and will likely continue to rely on, the continued individual and collective contributions of its management team. There can be no assurance that the Company will be able to retain its management team. The loss of any of these key employees without a suitable replacement, or the Company's inability to retain these key employees, could have a material adverse effect on its business, results of operations and cash flows.

The Company's controlling shareholders may have interests that may not be the same as those of other shareholders.

San Miguel Corporation ("**SMC**"), directly and indirectly, holds 68.26% of the Company's outstanding common equity as of September 30, 2017. See "Principal Shareholders." SMC is not obligated to provide the Company with financial support. The interests of SMC may differ from those of the Securityholders. SMC may direct the Company in a manner that is contrary to the interests of the Securityholders. There can be no assurance that conflicts of interest between the SMC, its shareholders and the Securityholders will be resolved in favor of the Company's shareholders or Securityholders. If the interests of SMC conflict with the interests of the Company, the Company could be disadvantaged by the actions that SMC chooses to pursue.

In addition, while the Company expects to benefit from its ongoing relationship with SMC and its subsidiaries and affiliates through their global reach and relationships, there can be no assurance that SMC will allow the Company to have access to such benefits.

The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition.

From time to time, the Company considers selective opportunities to expand both domestically and outside the Philippines through strategic acquisitions consistent with its focuses on increased production of diesel, gasoline, jet fuel, kerosene and LPG ("**White Products**"); expansion of its sales network and logistics capability, and the creation of operational synergies. However, there can be no assurance that the Company will be able to integrate its acquisitions fully in line with its strategy. Any failure to do so could have a material adverse effect on the business, results of operations and financial condition of the Company.

If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its recorded liabilities, the Company's financial condition and results of operations may be materially and adversely affected.

The Company's refining of crude oil and marketing and distribution of refined petroleum products in the Philippines and Malaysia are subject to inherent risks, such as equipment defects, malfunctions, failures or misuse, which could cause environmental pollution, leaks or spills, personal injury or loss of life, as well as damage to, and destruction of the environment, which could result in liabilities that exceed the Company's insurance coverage and have a material adverse effect on its financial condition and results of operations. The Company could also be adversely affected by business interruptions caused by war, terrorist activities, mechanical failure, human error, political action, labor strikes, fire and other circumstances or events.

The Company uses a combination of self-insurance, reinsurance and purchased insurance to cover its properties and certain potential liabilities. The Company's insurance coverage includes property,

marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial All Risk (the "**IAR**") policy covers the Petron Bataan Refinery for material damages, machinery breakdown and business interruption. The business interruption coverage under the IAR policy has a US$300.0 million limit. All insurance policies relating to the Company's Philippine operations are written by its wholly owned insurance subsidiary, Petrogen Insurance Corporation ("**Petrogen**"). The majority of the risks insured by Petrogen are reinsured with Standard & Poor's A-rated foreign insurers through Overseas Ventures Insurance Corporation Ltd. ("**Ovincor**"), Petron's Bermuda-based captive insurance subsidiary. For its Malaysian operations, the Company purchases insurance from Malaysian insurance companies, consistent with Malaysian law. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than the original assessments, the Company's financial condition, results of operations and cash flows may be materially and adversely affected.

Existing or future claims against the Company, its subsidiaries, associates or joint ventures, or directors or key management may have an unfavorable impact on the Company.

From time to time, the Company, its subsidiaries, associates or joint ventures, or directors or key management may be subject to litigation, investigations, claims and other legal proceedings. For a description of certain legal proceedings, see "Business — Legal Proceedings" of this Offering Circular. Legal proceedings could cause the Company to incur unforeseen expenses, occupy a significant amount of management's time and attention, and negatively affect the Company's business operations and financial position. Further, legal proceedings could continue for a prolonged period of time and be time-consuming with unpredictable outcomes and it is difficult for the Company to predict the possible losses, damages or expenses arising from such legal proceedings. An unfavorable outcome in these or other legal proceedings could have a material adverse effect on the Company's business, financial position, results of operations and cash flows.

Changes in applicable accounting standards may impact the Company's businesses, financial condition and results of operations.

The PFRS Council issues, from time to time, new standards and amendments to existing standards and interpretations. There can be no assurance that the Company's financial condition, results of operations or cash flows will not appear to be materially worse under the new standards. For example, effective January 1, 2019, lessees may no longer classify their leases as either operating or finance leases in accordance with Philippine Accounting Standard 17. Rather, lessees will be required to apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of twelve months or less or for which the underlying asset is of low value are exempted from these requirements. There can be no assurance that the Company's financial condition and results of operations will not be materially affected under PFRS 16. Furthermore, any failure to successfully adopt the new standards may adversely affect the Company's results of operations or financial condition.

Risks Relating to the Philippines and Malaysia

The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines and Malaysia, as well as globally.

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. In 2016 and the nine months ended September 30, 2017, the Company

derived approximately 69% and 66%, respectively, of its sales from its Philippine operations and approximately 31% and 34% respectively, of its sales from its Malaysian operations. The Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine and Malaysian economies and the overall levels of business activity in the Philippines and Malaysia, and the Company expects that this will continue to be the case in the future. The Philippines and Malaysia have both experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine or Malaysian consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations.

In the past, the Philippine and Malaysian economies and the securities of Philippine companies have been influenced, to varying degrees, by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines and/or Malaysia to deteriorate. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products and materially reduce the Company's revenues, profitability and cash flows. Moreover, there can be no assurance that current or future Philippine and Malaysian government policies will continue to be conducive to sustaining economic growth.

Political instability, acts of terrorism or military conflict or changes in laws or government policies in the Philippines or Malaysia could have a destabilizing effect and may have a negative effect on the Company.

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the impeachment of government officials, imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with several terrorist and separatist organisations, including the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network, and, along with certain other organisations, has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. For example, since the beginning of September 2013, Philippine government troops have been involved in violent and deadly clashes with a faction of the Moro National Liberation Front ("**MNLF**") that has been accused of kidnappings and bombings in parts of Mindanao.

Furthermore, the Government of the Philippines and the Armed Forces of the Philippines ("**AFP**") have clashed with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front ("**MILF**"), the MNLF and the New People's Army ("**NPA**"). In October 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. In December 2011, five AFP soldiers were killed in a clash with NPA members. In August 2013, a series of

bombings occurred in the cities of Cagayan de Oro and Cotabato City, as well as other areas in Maguindanao and North Cotabato provinces, all located in Mindanao, and in September 2013, armed clashes took place between the MNLF and the AFP in Zamboanga City in Mindanao, with a number of civilians being held hostage.

On May 23, 2017, after a joint operation of the AFP and the Philippine National Police ("**PNP**") was launched in Marawi City to capture an alleged terrorist leader, prolonged fighting ensued between the AFP and PNP and a radical Islamist group called the Maute Group. The Maute Group is a group inspired by the bigger extremist militant group known as the Islamic State in Iraq and Syria (ISIS). President Rodrigo Duterte declared martial law in Mindanao. Hostilities have led to several casualties and substantial property damage. On October 17, 2017, the Government announced that the leaders of the Maute Group have been killed.

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilize parts of the country and adversely affect the country's economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

In addition, the Company may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company's business, such as the imposition of additional levies on the sale of new vehicles or vehicular volume reduction programs. There can be no assurance that any changes in such regulations or policies imposed by the Philippine government from time to time will not have an adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company may also be affected by political and social developments in Malaysia, as well as changes in the political leadership and/or government policies in Malaysia. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that impose and/or increase restrictions on imports, the conduct of business, the repatriation of profits, the imposition of capital controls, changes in interest rates and the taxation of goods and services. There can be no assurance that any changes in such regulations or policies imposed by the Malaysian government from time to time will not have an adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, terrorist attacks and other acts of violence or war in Malaysia may negatively affect the Malaysian economy, resulting in a loss of consumer confidence and reduced demand for the Company's products in Malaysia, which could adversely affect the Company's business, financial condition, results of operations and prospects.

The occurrence of natural or man-made catastrophes or electricity blackouts may materially disrupt the Company's operations.

The Philippines and Malaysia have experienced a range of major natural or man-made catastrophes, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt the Company's ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine and Malaysian economies. The Philippines and Malaysia have both experienced electricity blackouts resulting from insufficient power generation, faulty transmission lines and other disruptions, such as typhoons or other tropical storms. These types of events may materially disrupt the Company's business and operations and could have a material adverse effect on the Company's financial condition and results of operations. The Company has insurance policies that cover business interruption and material damage to its facilities caused by natural catastrophes. There can be no assurance that the insurance coverage that the Company maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural or man-made catastrophes or electricity blackouts, including possible business interruptions.

Investors may face difficulties enforcing judgments against the Company.

The Company is organized under the laws of the Philippines and most of its assets are located in the Philippines and Malaysia. It may be difficult for investors to effect service of process outside the Philippines upon the Company with respect to claims pertaining to the Securities. Moreover, it may be difficult for investors to enforce in the Philippines or Malaysia judgments against the Company obtained outside the Philippines or Malaysia, as applicable, in any actions pertaining to the Securities, particularly with respect to actions for claims to which the Company has not consented to service of process outside the Philippines or Malaysia, as the case may be. In addition, substantially all of the directors and senior management of the Company are residents of the Philippines, and all or a substantial portion of the assets of these persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process outside the Philippines upon such persons or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines.

The Philippines is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

A judgment obtained for a fixed sum in a court of a reciprocating country (as listed in the First Schedule of the Reciprocal Enforcement of Foreign Judgments Act 1958 ("**REJA**")) may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the REJA within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed in the preceding paragraph. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase raw materials and equipment and to service foreign currency denominated obligations, including its obligations under the Securities, could be adversely affected.

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the Bangko Sentral ng Pilipinas (the "**BSP**"), with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

There are foreign exchange policies in Malaysia that support the monitoring of capital flows into and out of the country in order to preserve its financial and economic stability. The foreign exchange policies in Malaysia are governed by the Financial Services Act 2013 ("**FSA**") and the Islamic Financial Services Act 2013 ("**IFSA**"). These policies are administered by the Foreign Exchange Administration, an arm of Bank Negara Malaysia ("**BNM**"), which is the central bank of Malaysia. BNM has issued Rules and Notices that regulate foreign exchange dealings in Malaysia pursuant to the powers conferred by the FSA and IFSA. Under the Rules Applicable to Non-Residents issued by the BNM, there is no restriction for non-residents to invest in Malaysia in any form of Ringgit assets either as direct or portfolio investments, and non-residents are free to repatriate any amount of funds in Malaysia at any time, including capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investment in Malaysia, subject to the applicable reporting requirements and any withholding tax. Repatriation, however, must be made in a foreign currency.

The Company purchases some critical raw materials, particularly crude oil, and some technically advanced equipment from abroad and needs foreign currency to make these purchases. In addition, the Company has incurred and may continue to incur foreign currency denominated obligations, including the Securities. There can be no assurance that the Philippine government or the Malaysian Foreign Exchange Administration will not impose economic or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail the Company's ability to purchase crude oil, materials and equipment from outside the Philippines or Malaysia in U.S. dollars and its ability to make principal and interest payments in U.S. dollars on its foreign currency denominated obligations, including its obligations under the Securities, which could materially and adversely affect its financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may be different from those in other countries.

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in the United States or certain other countries. Requirements of the Philippine SEC and the PSE with respect to corporate governance standards may also be different from those applicable in certain other jurisdictions. Further, rules against self-dealing and those protecting minority shareholders may be different from or less developed in the Philippines than in other countries. These standards in certain areas of disclosure and corporate governance may materially and adversely affect the interests of the Company's shareholders, particularly those of minority shareholders.

The Company may not be able to purchase U.S. dollars from the Philippine banking system to settle its obligations under the Securities.

Under existing foreign exchange controls in the Philippines, foreign currency denominated loan obligations or foreign currency denominated guarantees duly approved by, and/or registered with, the BSP can be paid in foreign currency obtained through the Philippine banking system without further prior approval of the BSP (subject to any conditions contained in the BSP approval). BSP approval and registration will allow a borrower to access the Philippine banking system to obtain U.S. dollars to service its relevant debt obligations rather than from other sources of U.S dollars such as the non-banking system or foreign currency revenue streams.

Since the Securities are not eligible for such BSP approval and registration, the Company may not be able to purchase U.S dollars from the Philippine banking system to settle its obligations under the Securities. There is no assurance that the Company will be able to obtain sufficient U.S dollars outside the Philippine banking system to settle its obligations under the Securities.

Territorial and other disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("**UNCLOS**"). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

On July 12, 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line;" (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China had violated the Philippines' sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West Philippine Sea remains contentious.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino-Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino-Muslim individuals and the Malaysian armed forces resulted in casualties on both sides. Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, whereby a Taiwanese fisherman was unintentionally killed by a Philippine Coast Guard ship that opened fire on his vessel in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Government.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and materially and adversely affect the Company's financial condition and results of operations.

Risks Relating to the Securities

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or distribution payments is different from the potential investor's currency;

- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are perpetual securities and investors have no right to require redemption.

The Securities are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Securities at any time and they can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, holders of Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

There may be insufficient distributions upon liquidation.

The obligations of the Company under the Securities and under the Trust Deed will constitute its direct, unconditional, unsecured and unsubordinated obligations. In the event of liquidation or winding-up, the claims of Securityholders in respect of the Securities, including in respect of any claim to Arrears in Distribution, will (subject to and to the extent permitted by applicable law) be preferred over the subordinated obligations of the Company and will rank at least *pari passu* with each other and with all other unconditional, unsecured and unsubordinated obligations of the Company.

Holders may not receive Distribution payments if the Company elects to defer Distribution payments.

The Company may, at its sole discretion and subject to certain conditions, elect to defer any scheduled Distributions on the Securities for any period of time. The Company is not subject to any limits as to the number of times Distributions can be deferred. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Terms and Conditions of the Securities, the Company may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distributions shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4.7 (*Payment of Arrears of Distribution*).

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Company's financial condition.

The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events.

The Securities are redeemable at the option of the Company, in whole but not in part, on the Step Up Date or any Distribution Payment Date falling after the Step Up Date at the redemption price specified in Condition 5 of the Terms and Conditions.

The Company also has the right to redeem the Securities upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined in the Terms and Conditions of the Securities). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company (A) upon the occurrence of a Change of Control Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Security Default Event at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, or (D) in the event less than 25% of the aggregate principal amount of the Securities originally issued remain outstanding (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (Notices to the Securityholders).

The date on which the Company elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There are limited remedies for default under the Securities.

Any scheduled Distribution will not be due if the Company elects to defer that Distribution pursuant to the Terms and Conditions of the Securities. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment has become due and the Company fails to make the payment when due. The only remedy against the Company available to the Trustee or (where the Trustee has failed to proceed against the Company, as provided in the Terms and Conditions of the Securities) any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of the Company's payment obligations arising from the Securities and the Trust Deed.

The adoption of new accounting policies of PFRS may have a significant impact on the Company's financial condition and results of operations and/or may result in a change to the accounting treatment of the Securities, which could give the Company the right to elect to redeem the Securities.

The Financial Reporting Standard Council ("**FRSC**") is continuing its policy of issuing PFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**"). FRSC has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with

standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new PFRS will not have a significant impact on the Company's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, PFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of the Company, and will give the Company the right to elect to redeem the Securities. See "— The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events."

The applicable Distribution Rate may fluctuate on any Reset Date.

The Distribution Rate will be reset on each Reset Date by reference to the then Treasury Rate (as defined elsewhere in this Offering Circular). Accordingly, a Securityholder is exposed to the risk of a fluctuating Distribution Rate and uncertain distribution income. A fluctuating Distribution Rate makes it impossible to determine the yield of the Securities with respect to any Reset Period in advance.

The Company and its subsidiaries may raise other capital and incur substantial indebtedness in the future and may not be able to generate sufficient cash flows to meet its obligations.

The Company may from time to time and without prior consultation of the holders of the Securities create and issue further Securities (see "Terms and Conditions of the Securities — Further Issues"). Furthermore, the Company and its subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Under the terms of the Securities, there is no restriction, contractual or otherwise, on the amount of Securities which the Issuer may further issue or securities or other liabilities which the Issuer and the Company may issue or incur and which rank senior to, or *pari passu* with, the Securities. If the Company or its subsidiaries incur additional debt, that could have important consequences to investors. For example, it could: (i) limit the Company's ability to satisfy its obligations under the Securities and other debt; (ii) increase the Company's vulnerability to adverse general economic and industry conditions; (iii) require the Company to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, planned capital expenditures and other general corporate purposes; (iv) limit the Company's flexibility in planning for or reacting to changes in its businesses and the industries in which it operates; (v) increase the cost of additional financing; and (vi) place the Company at a competitive disadvantage compared to its competitors that have less debt. If the Company's subsidiaries incur additional indebtedness, such incurrence could also have adverse effects similar to those described above on the subsidiaries, and therefore on the Company. The issue of any further Securities or such other securities, or the incurrence of any such other liabilities, may reduce the amount (if any) recoverable by holders of the Securities on a winding-up of the Company and may also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell them.

Debt evidenced by a public instrument have priority in the event of liquidation.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. Some of the Company's financial indebtedness are covered by agreements which are embodied in public instruments.

There has been no prior market for the Securities, an active trading market for the Securities may not develop, and the trading price of the Securities could be materially and adversely affected.

The Securities are a new issue of securities for which there is currently no trading market. The Company has been advised that the Joint Lead Managers intend to make a market in the Securities, but that they are not obligated to do so and may discontinue such market making activity at any time without notice. The Company cannot predict whether an active trading market for the Securities will develop or be sustained. If an active trading market were to develop, the Securities could trade at prices that may be lower than the initial offering price. The price at which the Securities trade depends on many factors, including, but not limited to:

- prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- the Company's financial condition, historical financial performance and future prospects.

Approval in-principle has been obtained for the listing of the Securities on the SGX-ST. However, no assurance can be given that the application to the SGX-ST will be approved or that, if listed, the Company will be able to maintain such listing or that a liquid trading market will develop or continue. If an active market for the Securities fails to develop or be sustained, the trading price of the Securities could be materially and adversely affected. Lack of a liquid or active trading market for the Securities may adversely affect the price of the Securities or may otherwise impede a holder's ability to dispose of the Securities.

The Company will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt or hybrid securities in certain other countries.

The Company will be subject to reporting obligations in respect of the Securities to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST are different from those imposed by securities exchanges in other countries or regions, such as the United States. As a result, the level of information that is available may not correspond to what investors in the Securities are accustomed to.

Rights of the Securityholders may be altered without their consent.

The Trust Deed contains provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders, including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. The Trust Deed also provides that the Trustee may, without consent of the Securityholders, agree to any modification of any provision of the Securities which is not materially prejudicial to the interests of the Securityholders or which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is proven or to comply with mandatory provisions of law, in the circumstances described in "Terms and Conditions of the Securities — Meetings of Securityholders, Modification, Waiver, Authorisation and Determination — Modification, Waiver, Authorisation and Determination."

The Trustee may decline to take actions requested by the Securityholders.

Under the Trust Deed, in certain circumstances, the Trustee may, at its sole discretion, request the Securityholders to provide an indemnity and/or security and/or pre-funding to its satisfaction against all liabilities to which it may render itself liable or which it may inure as a result before it takes actions on behalf of the Securityholders. The Trustee shall not be obliged to take any such actions if no such

indemnity or security or pre-funding is provided to its satisfaction against all liabilities to which it may render itself liable or which it may inure as a result. Even if the Securityholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree to the indemnity and/or security and/or pre-funding may have an impact as to when such action is taken. In addition, notwithstanding the provision of an indemnity or security or pre-funding to the Trustee, the Trustee may decline to take action requested by the Securityholders if it determines that such actions are not permitted under the terms of the Trust Deed or applicable law.

The Securities are subject to market conditions and exposed to market risk.

A Securityholder of fixed rate securities such as the Securities is particularly exposed to the risk that the price of such securities falls as a result of changes in the market interest rate. While the initial Distribution rate of the Securities is fixed until the Initial Reset Date (with a recalculation of the Distribution rate on every Reset Date as set out in Condition 4.1), market interest rates typically change on a daily basis. As the market interest rate changes, the price of the Securities also changes, but in the opposite direction. If the market interest rate increases, the price of the Securities would typically fall. If the market interest rate falls, the price of the Securities would typically increase. Securityholders should be aware that movements in these market interest rates can adversely affect the price of the Securities and can lead to losses for the Securityholders if they sell the Securities.

Distribution rate reset may result in an uncertain income.

A holder of securities with a fixed Distribution rate that will be reset during the term of the securities (as will be the case for the Securities on each Reset Date (as defined in Condition 4.1)) if not previously redeemed, is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

No events of default allowing acceleration.

There are no events of default under the Securities allowing Securityholders to accelerate payments under the Securities.

There are limited remedies for non-payment under the Securities.

Any scheduled Distribution payment will not become due and payable if the Company elects to defer that Distribution payment pursuant to the Conditions. The only remedy against the Company available to the Trustee on behalf of Securityholders for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Company's payment obligations arising from the Securities.

Neither the Issuer nor the Securities are rated.

Investors should not assume or infer that any rating ascribed to the Issuer or any of its indebtedness or credit would apply to the Securities. The Issuer does not currently benefit from, and has not applied to any ratings agency, for either a corporate rating or a rating of the Securities, and does not currently intend to apply for any such rating.

Singapore taxation risk.

It is not clear whether the Securities will be regarded as "debt securities" by the Inland Revenue Authority of Singapore ("**IRAS**") or whether the distribution payments made under the Securities will

be regarded as interest payable on indebtedness for the purposes of the Income Tax Act (Singapore, Cap 134) ("**ITA**") and whether the tax concessions available for "qualifying debt securities" under the qualifying debt securities scheme (as set out in the section "Singapore Taxation") would apply to the Securities.

If the Securities are not regarded as "debt securities" or the distribution payments made under the Securities are not regarded as interest payable on indebtedness for the purposes of the ITA and holders thereof are not eligible for the tax concessions under the qualifying debt securities scheme, the tax treatment to holders may differ. Investors and holders of the Securities should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Securities.

In addition, the Securities are intended to be "qualifying debt securities" for the purposes of the ITA, subject to the fulfilment of certain conditions more particularly described in the section entitled "Singapore Taxation." However, there is no assurance that such Securities will enjoy or will continue to enjoy the tax concessions should the relevant tax laws be amended or revoked at any time.

Risks Associated with the Presentation of Certain Information in this Offering Circular

Certain information contained herein is derived from unofficial publications.

Certain information in this Offering Circular relating to the Philippines, Malaysia and the industry in which the Company's business operates, including statistics relating to market size and market share, is derived from various internal surveys, market research, government data, private publications and/or the Company's internal assumptions and estimates. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable. However, there is no assurance that such information is accurate, complete, up-to-date or consistent with information compiled within or outside the Philippines or Malaysia. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company nor the Joint Lead Managers make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

TERMS AND CONDITIONS OF THE SECURITIES

The following (other than any paragraph in italics), subject to alteration, are the terms and conditions of the Securities, which will be endorsed on the Certificates issued in respect of the Securities.

The issue of the US$500,000,000 Senior Perpetual Capital Securities (the "**Securities**," which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 9 and forming a single series with the Securities) of Petron Corporation (the "**Issuer**") are constituted by a Trust Deed to be dated the Issue Date (the "**Trust Deed**") made between the Issuer and DB Trustees (Hong Kong) Limited (the "**Trustee**", which expression includes its successor(s)) as trustee for the holders of the Securities (the "**Securityholders**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the agency agreement to be dated the Issue Date (the "**Agency Agreement**") made between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the "**Principal Paying Agent**"), as calculation agent (the "**Calculation Agent**"), as the registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**" and together with the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent, the "**Agents**"). Copies of the Trust Deed and the Agency Agreement are available for inspection with reasonable prior notification during normal business hours by the Securityholders at the specified office of the Trustee and the Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Securities are issued in registered form in amounts of US$200,000 and integral multiples of US$1,000 in excess thereof (referred to as the "**Principal Amount**" of a Security). A certificate (each a "**Certificate**") will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders (the "**Register**") which the Issuer will procure to be kept by the Registrar.

The Securities are not issuable in bearer form.

1.2 Title

Title to the Securities passes only by registration in the Register. The person in whose name a Security is registered in the Register will (except as otherwise required by law) be treated as the absolute owner of that Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder. In these Conditions, "**Securityholder**" and (in relation to a Security) "**Holder**" mean the person in whose name a Security is registered in the Register.

For a description of the procedures for transferring title to book-entry interests in the Securities, see "Clearance and Settlement of the Securities."

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Condition 2.4, a Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents (other than the Calculation Agent).

In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor. No transfer of a Security will be valid until and unless entered on the Register.

For a description of certain restrictions on transfers of interests in the Securities, see "Subscription and Sale".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the Holder entitled to the transferred Securities to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent (as applicable) with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Securities not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred to the address of such Holder appearing on the Register or as specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer, the Registrar or any other Agent (other than the Calculation Agent) but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any other Agent (other than the Calculation Agent) may reasonably require) by the relevant Holder in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Securityholder may require the transfer of a Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal, premium (if any) or Distributions on that Security.

2.5 Regulations

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

3. STATUS

3.1 Status of the Securities

The Securities constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The claims of the Holders, in respect of the Securities, including in respect of any claim to Arrears in Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank at least *pari passu* with each other and with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer.

3.2 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3.3 No Voting Rights

The Securities do not confer any voting rights on Securityholders with respect to the common shares or any other class of share capital of the Issuer.

4. DISTRIBUTIONS

4.1 Rate of Distribution

Subject to Condition 4.4 and Condition 4.5, the Securities will confer a right to receive distributions ("**Distributions**"):

(a) from the period commencing on (and including) the Issue Date to (but excluding) July 19, 2023 (the "**Step Up Date**"), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrear on January 19 and July 19 of each year (each a "**Distribution Payment Date**") commencing on July 19, 2018.

"**Reset Date**" means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

4.2 Distribution Accrual

Each Security will cease to accrue Distributions from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event Distributions shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Broken Amounts

When any Distribution is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

4.4 Increase in Rate of Distribution

Following the earlier to occur of:

(a) the date on which a Reference Security Default Event occurs, or

(b) the date which is the 61st day, or if such day is not a Business Day, the first Business Day thereafter, following a Change of Control Event,

unless an irrevocable notice to redeem the Securities pursuant to Condition 5.4 has been given to Securityholders, the Rate of Distribution will increase by 2.50% per annum with effect from the next Distribution Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date). For the avoidance of doubt, an increase (if any) in the Rate of Distribution pursuant to this Condition 4.4 shall not occur more than once.

"**Change of Control Event**" means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders.

"**Permitted Holders**" mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.

"**Reference Security Default Event**" means an event of default occurs pursuant to (i) clause (b) of the Events of Default of the Issuer's outstanding ₱7,000,000,000 4.5219% p.a. PHP-denominated bonds due 27 October 2023 (*Bloomberg identifier: A0291289*) (the "**Initial Referenced Senior Notes**"), or (ii) similar condition of any other foreign currency or PHP-denominated debt security with an international tranche issued under Regulation S of the U.S. Securities Act and outstanding after the Issue Date, which debt security has the latest occurring scheduled maturity date (the "**Superseding Referenced Senior Notes**"), as a result of the Issuer's default in, non-compliance with or non-performance of the covenants of the Issuer under the Initial Referenced Senior Notes or similar covenants of the Superseding Referenced Senior Notes, as the case may be, as respectively amended from time to time.

4.5 Optional Deferral of Distributions

(a) The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the 6 months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the "**Deferral Election Event**"). Any such deferred Distribution will constitute "**Arrears of Distribution**" and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

(b) The Issuer will notify the Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the "**Deferral Election Notice**").

Deferral of a Distribution pursuant to Condition 4.5(a) will not constitute a default by the Issuer (including, without limitation, pursuant to Condition 10) or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

(c) Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by two duly Authorised Signatories of the Issuer confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event in which event it shall be conclusive and binding on the Securityholders.

(d) The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a).

"**Compulsory Distribution Payment Event**" means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

4.6 Restrictions in the case of Deferral

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

(a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or

(b) at its discretion, redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

4.7 Payment of Arrears of Distribution

(a) The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.

(b) **Payment Reference Date** means the date which is the earliest of:

(i) the date on which the Securities are redeemed in accordance with Condition 5;

(ii) the date on which an order is made for the Winding-Up of the Issuer;

(iii) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event; and

(iv) the date of any substitution or modification of the Securities pursuant to Condition 13.

5. REDEMPTION AND PURCHASE

5.1 Redemption

The Securities are perpetual securities in respect of which there is no fixed redemption date. Unless previously redeemed or purchased and cancelled in accordance with the following provisions of this Condition 5 (without prejudice to Condition 10), the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its constituent documents (including its articles of incorporation, which currently provide for the Issuer's corporate term to expire on December 22, 2066). If the corporate term of the Issuer is extended, the maturity date of the Securities will automatically and correspondingly be extended.

As of the date of this Offering Circular, the Issuer's articles of incorporation provide that its corporate term will expire on December 22, 2066 and the Issuer intends to extend its corporate term prior to such expiry. Under the Corporation Code of the Philippines (Batas Pambansa Blg. 68), the extension of the corporate term will require an amendment to the Issuer's articles of incorporation, which amendment is subject to the approval of the Board of Directors and shareholders of the Issuer and the Securities and Exchange Commission of the Republic of the Philippines.

5.2 Redemption at the option of the Issuer

Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

(a) the Step Up Date; or

(b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

5.3 Early redemption due to a Gross-up Event

(a) If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

(c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(ii) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

"**Gross-up Event**" means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after January 19, 2018 the Issuer has or will become obliged to pay Additional Amounts; *provided* that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided further* that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after January 19, 2018, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 30%.

5.4 Early redemption due to a Change of Control Event, Reference Security Default Event or Accounting Event

(a) If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to Securityholders in accordance with Condition 12.1.

(c) If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(d) Such notice of redemption as provided in Conditions 5.4(a), 5.4(b) and 5.4(c) may only be given simultaneously with or after a notification by the Issuer in accordance with Condition 12.1 that a Change of Control Event, a Reference Security Default Event or an Accounting Event (as the case may be) has occurred.

An "**Accounting Event**" means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

5.5 Purchase of Securities

The Issuer or any of its Subsidiaries may, in compliance with applicable laws, purchase Securities in any manner and at any price. Such acquired Securities may be surrendered for cancellation or held or resold.

5.6 Redemption of Securities in the case of minimal outstanding amounts

In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part):

(a) at any time prior to the Step Up Date, at the Special Redemption Price; or

(b) on or at any time after the Step Up Date, at the Redemption Price,

on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

6. PAYMENTS

6.1 Payments in respect of Securities

Payment of principal, premium (if any) and Distributions will be made by transfer to the registered account of the Securityholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and premium (if any) and payments of Distribution due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents (other than the Calculation Agent). Distributions on Securities due on a Distribution Payment Date will be paid to the holder shown on the Register at the close of business on the date being the 15th day before the relevant Distribution Payment Date (the "**Record Date**").

For the purposes of this Condition, a Securityholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date, and a Securityholder's **registered address** means its address appearing on the Register at that time.

Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the securityholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

6.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and Distributions on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

6.3 No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of Distributions due otherwise than on a Distribution Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

Securityholders will not be entitled to any Distributions or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Securityholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City, Hong Kong, Singapore and Mandaluyong City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal, premium (if any) or Distributions which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or Distributions in fact paid.

6.6 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) so long as the Securities are listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for individual certificates, and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in

Singapore where the individual certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for individual certificates, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual certificates, including details of the paying agent in Singapore;

(c) there will at all times be a Registrar; and

(d) there will at all times be a Transfer Agent.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 12.1.

7. TAXATION AND GROSS-UP

7.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer , the Issuer shall pay such additional amount ("**Additional Amounts**") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Security:

(a) presented for payment (if applicable) by or on behalf of a Securityholder who is liable to the Taxes in respect of such Security by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Security;

(b) presented for payment (if applicable) more than 30 days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Security would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 6.4);

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Security, after written request made to that Holder at least 30 days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by a statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction; or

(e) presented for payment (if applicable) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

7.2 Interpretation

In these Conditions:

(a) The "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 12.1.

(b) The "**Relevant Jurisdiction**" means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in the Issuer being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

7.3 Additional Amounts, principal and Distributions

Any reference in these Conditions to any amounts in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to **principal** includes any installment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and Distributions includes all amounts payable pursuant to Condition 4 and any other amounts in the nature of distributions payable pursuant to these Conditions.

8. PRESCRIPTION

Securities will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of Distributions) from the Relevant Date in respect of the Securities subject to the provisions of Condition 6.

9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities (which will be constituted by a deed supplemental to the Trust Deed) or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue.

10. NON-PAYMENT

10.1 Non-payment when due

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any

rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

10.2 Proceedings for Winding-Up

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 and subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

10.3 Enforcement

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4 the Trustee may without further notice to the Issuer institute such proceedings or take such steps against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

10.4 Entitlement of Trustee

The Trustee shall not and shall not be obliged to take any of the actions referred to in Condition 10.2 or 10.3 above against the Issuer to enforce the terms of the Trust Deed or the Securities unless (a) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the Securityholders of at least one-quarter in principal amount of the Securities then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

10.5 Right of Securityholders

Securityholders are not entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 Extent of Securityholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

11. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to Securityholders

All notices to the Securityholders will be valid if mailed to them by first class mail (or its equivalent) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the seventh day after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed.

So long as the Global Certificate is held on behalf of Euroclear and Clearstream any notice to the Securityholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

12.2 Notices from Securityholders

Notices to be given by any Securityholder must be in writing and given by lodging the same, together with any Certificate in respect of such Security or Securities, with the Registrar or, if the Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

13. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT OR ACCOUNTING EVENT

The Trustee may, without the consent of the Securityholders, agree with the Issuer to:

(a) the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or

(b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that:

(i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-Up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer;

(ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and

(iii) certain other conditions set out in the Trust Deed are complied with to the satisfaction of the Trustee.

14. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

14.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by it upon the request of Securityholders holding not less than 50.0% in principal amount of the Securities for the time being outstanding. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing over 50.0% in principal amount of the Securities for the time being outstanding, or at any adjourned meeting, two or more persons being or representing Securityholders whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals:

(a) to modify the dates on which the Distribution is payable in respect of any Securities;

(b) to reduce or cancel the principal amount of, any premium payable on redemption of, or amount of Distributions on or to vary the method of calculating the Rate of Distribution on, any Securities;

(c) to change the currency of payment of any Securities; or

(d) to amend this provision or to modify the provisions concerning the quorum required at any meeting of the Securityholders or the majority required to pass an Extraordinary Resolution

(each of (a), (b), (c) and (d) above, a "**Reserved Matter**"),

in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75.0%, or at any adjourned such meeting not less than 25.0%, in principal amount of the Securities for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Securityholders or passed by way of electronic consent given by the Securityholders through the relevant clearing systems in accordance with the Trust Deed will be binding on all Securityholders, whether or not they are present at any meeting at which such resolution was passed. The vote required to pass an Extraordinary Resolution at any meeting of Securityholders duly convened and held in accordance with the Trust Deed is not less than two-thirds of the votes cast. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 75.0% of the aggregate principal amount of Securities outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The provisions of this Condition 14.1 are subject to the further provisions of the Trust Deed.

14.2 Modification, Waiver, Authorization and Determination

The Trustee may, without the consent of the Securityholders, agree to any modification of these Conditions or any of the provisions of the Trust Deed (a) if such modification will not be materially prejudicial to the interests of Securityholders or (b) which is of a formal, minor or technical nature or is to correct a manifest error or an error which is proven or (c) to comply with mandatory provisions of law. In addition, the Trustee may, without the consent of the Securityholders, authorize or waive any breach or proposed breach of these Conditions or any of the provisions of the Trust Deed if the interests of the Securityholders will not be materially prejudiced thereby.

14.3 Trustee to have Regard to Interests of Securityholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization, determination or substitution), the Trustee must have regard to the general interests of the Securityholders as a class but must not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, must not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require from the Issuer, nor will any Securityholder be entitled to claim from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14.4 Notification to the Securityholders

Any modification, waiver, authorization, determination or substitution agreed to by the Trustee will be binding on the Securityholders and, unless the Trustee agrees otherwise, any modification or substitution will be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 12.1.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing law

The Trust Deed, the Agency Agreement, the Securities and any non-contractual obligations arising out or in connection with the Trust Deed, the Agency Agreement and the Securities, are governed by, and shall be construed in accordance with, English law.

16.2 Jurisdiction of English courts

(a) The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and has accordingly submitted to the exclusive jurisdiction of the English courts.

(b) The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Securityholders may take any suit, action or proceeding (referred to as "**Proceedings**") arising out of, or in connection with the Trust Deed or the Securities (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

16.3 Appointment of process agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

Accounting Event has the meaning specified in Condition 5.4.

Additional Amounts has the meaning specified in Condition 7.1.

Agency Agreement has the meaning specified in the preamble to these Conditions.

Agent and Agents have the meaning specified in the preamble to these Conditions.

Arrears of Distribution has the meaning specified in Condition 4.5(a).

Authorised Signatory has the meaning given to it in the Trust Deed.

Business Day means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, Singapore, New York and Mandaluyong City.

Calculation Agent has the meaning specified in the preamble to these Conditions.

Certificate has the meaning specified in Condition 1.1.

Change of Control Event has the meaning given to it in Condition 4.4.

Compulsory Distribution Payment Event has the meaning specified in Condition 4.5.

Conditions means these terms and conditions of the Securities.

Deferral Election Event has the meaning specified in Condition 4.5(a).

Deferral Election Notice has the meaning specified in Condition 4.5(b).

Distribution Payment Date has the meaning specified in Condition 4.1.

Distributions has the meaning specified in Condition 4.1.

Extraordinary Resolution has the meaning given to it in the Trust Deed.

Gross-up Event has the meaning specified in Condition 5.3.

Holder has the meaning specified in Condition 1.2.

Initial Credit Spread means 2.269%.

Initial Rate of Distribution means 4.6% per annum plus any increase pursuant to Condition 4.4.

Initial Referenced Senior Notes has the meaning specified in Condition 4.4.

Issue Date means January 19, 2018.

Issuer means Petron Corporation.

Junior Securities means (i) any class of the Issuer's share capital (including, without limitation, preferred shares), (ii) any Subordinated Indebtedness issued by the Issuer, and (iii) the undated subordinated capital securities of the Issuer (ISIN XS0879849312; Common Code: 087984931) issued and outstanding as of the Issue Date.

Parity Securities means: (i) any instrument or security issued or entered into by the Issuer which ranks, or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer where the Issuer's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, *pari passu* with all other present and future unsecured, unconditional and unsubordinated obligations of the Issuer.

Paying Agent has the meaning specified in the preamble to these Conditions.

Payment Business Day has the meaning specified in Condition 6.4.

Payment Reference Date has the meaning specified in Condition 4.7(b).

Permitted Holders has the meaning specified in Condition 4.4.

Person means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

PFRS means Philippine Financial Reporting Standards and includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) as in effect from time to time.

PHP or **₱** means the lawful currency of the Republic of the Philippines.

Principal Amount has the meaning specified in Condition 1.1.

Principal Paying Agent has the meaning specified in the preamble to these Conditions.

Proceedings has the meaning specified in Condition 16.2(b).

Rate of Distribution means the Initial Rate of Distribution or the Reset Rate of Distribution, as applicable.

Record Date has the meaning specified in Condition 6.1.

Redemption Price means the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable.

Reference Security Default Event has the meaning specified in Condition 4.4.

Register has the meaning specified in Condition 1.1.

Registrar has the meaning given to it in the preamble to these Conditions.

Relevant Date has the meaning specified in Condition 7.2.

Relevant Jurisdiction has the meaning specified in Condition 7.2.

Reserved Matter has the meaning specified in Condition 14.1.

Reset Date has the meaning specified in Condition 4.1.

Reset Determination Date means, in relation to the calculation of a Reset Rate of Distribution, the second Business Day before the commencement of the relevant Reset Period.

Reset Period means the period from and including the Step Up Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

Reset Rate of Distribution in respect of any Reset Period means the Treasury Rate calculated on the Reset Determination Date in respect of that Reset Period plus the Initial Credit Spread and the Step Up Margin.

SGX-ST has the meaning specified in Condition 6.6.

Securities has the meaning specified in the preamble to these Conditions.

Securityholders has the meaning specified in the preamble to these Conditions.

Special Redemption Price means 101% of the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)).

Step Up Date has the meaning given to it in Condition 4.1(a).

Step Up Margin means 2.50% per annum.

Subordinated Indebtedness means all indebtedness for money borrowed or raised which, in the event of Winding-Up of the issuer thereof, ranks or is expressed to rank, by its terms or by operation of law, in right of payment behind the claims of unsecured and unsubordinated creditors of such issuer, and for this purposes indebtedness shall include all liabilities, whether actual or contingent.

Subsidiary or **Subsidiaries** means, with respect to any Person, any corporation, association or other business entity, more than 50.0% of the voting power of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be **controlled** by another means that the other (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and **control** shall be construed accordingly.

Superseding Referenced Senior Notes has the meaning specified in Condition 4.4.

Taxes has the meaning specified in Condition 7.1.

Transfer Agent has the meaning specified in the preamble to these Conditions.

Treasury Rate means the rate in percent per annum equal to the yield, under the heading that represents the average for the week immediately prior to the Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" (currently set out on the website https://www.federalreserve.gov/releases/h15/) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded non-inflation indexed U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities," for the maturity corresponding to five years. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, "Treasury Rate" shall be obtained from an internationally recognized investment bank selected by the Issuer and the Issuer shall notify the applicable Treasury Rate to the Calculation Agent and the Trustee.

Trust Deed has the meaning specified in the preamble to these Conditions.

Trustee has the meaning specified in the preamble to these Conditions.

Voting Stock means, with respect to any Person, share capital of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Winding-Up means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Securities in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Securities set out in this Offering Circular. Terms defined in the Terms and Conditions of the Securities have the same meaning in the paragraphs below. The following is a summary of certain of those provisions:

ACCOUNTHOLDERS

For so long as all of the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Securities (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Securities (and the expression "**Securityholders**" and references to "**holding of Securities**" and to a "**holder of Securities**" shall be construed accordingly) for all purposes other than with respect to payments on such Securities, the right to which shall be vested, as against the Company and the Trustee, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any Security following its redemption or purchase by the Company or any of its subsidiaries will be effected by reduction in the aggregate principal amount of the Securities in the register of Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Payments of principal and Distributions in respect of Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means a day on which Euroclear and Clearstream, Luxembourg are both open for business.

Distributions of amounts with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that such payment has been made.

NOTICES

So long as all the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant

notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Terms and Conditions of the Securities. For so long as the Securities are listed on the SGX-ST, notices shall also be published in the manner required by the rules and regulations of the SGX-ST.

REGISTRATION OF TITLE

Registration of title to Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Company that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Company within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Security may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Terms and Conditions of the Securities, except that Definitive Certificates in respect of Securities so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "Clearance and Settlement of the Securities."

RECORD DATE

Distributions on Securities due on a Distribution Payment Date and Arrears of Distribution (and distributions accrued thereon) will be paid to the holder shown on the register of Securityholders at the close of business on the date being the 15th day before the relevant Distribution Payment Date.

EXCHANGE RATES

The PDS, introduced in 1992, is a computer network supervised by the BSP through which the members of the Bankers Association of the Philippines effect spot and forward currency exchange transaction. The PDS weighted average rate is published in the BSP's "Reference Exchange Rate Bulletin" and the major Philippine financial press the following business day.

No representation is made that the Peso, Ringgit or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, Ringgit or Pesos, as the case may be, at any particular rate or at all.

The following table sets forth certain information concerning the BSP Rate between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Pesos per US$1.00.

	Peso/U.S. dollar exchange rate			
Year	**Period end**	**Average[(1)]**	**High[(2)]**	**Low [(3)]**
2012	41.192	42.229	44.246	40.862
2013	44.414	42.446	44.660	40.569
2014	44.617	44.395	45.406	43.280
2015	47.166	45.503	47.435	44.053
2016	49.813	47.493	49.984	45.917
2017				
July	50.582	50.638	50.883	50.449
August	51.166	50.875	51.494	50.185
September	51.073	51.009	51.242	50.629
October	51.799	51.343	51.799	50.830
November	50.365	51.038	51.686	50.365
December	49.923	50.332	50.741	49.923

Notes:

(1) Weighted average rate under the PDS starting August 4, 1992.

(2) Highest closing exchange rate for the period.

(3) Lowest closing exchange rate for the period.

Source: Reference Exchange Rate Bulletin, Treasury Department of the BSP.

The following table sets forth certain information concerning the foreign exchange rate between the Ringgit Malaysia and the U.S. dollar for the periods and dates indicated, expressed in RM per US$1.00:

	RM/U.S. dollar exchange rate			
Year	**Period end**	**Average[(1)]**	**High[(2)]**	**Low [(3)]**
2012	3.06	3.09	3.20	2.99
2013	3.28	3.15	3.33	2.96
2014	3.50	3.29	3.50	3.15
2015	4.28	3.99	4.46	3.52
2016	4.49	4.18	4.49	3.87
2017				
July	4.28	4.29	4.30	4.28
August	4.27	4.28	4.30	4.27
September	4.23	4.22	4.26	4.19
October	4.23	4.23	4.24	4.22
November	4.09	4.16	4.24	4.08
December	4.05	4.07	4.09	4.05

Notes:

(1) Simple average daily closing exchange rates for the period.

(2) Highest closing exchange rate for the period.

(3) Lowest closing exchange rate for the period.

Source: Bank Negara Malaysia, rate from the Interbank Foreign Exchange Market in Kuala Lumpur.

USE OF PROCEEDS

The net proceeds from the issue of the Securities, which will be approximately US$498.0 million (after the deduction of commissions), will be applied by the Company for the repurchase, refinancing and/or redemption of undated subordinated capital securities, the repayment of indebtedness and for general corporate purposes, including capital expenditures.

CAPITALIZATION OF THE COMPANY

The following table sets out, in accordance with PFRS, the Company's total capitalization[1] as of September 30, 2017 and as adjusted to give effect to the issue of the Securities. This table should be read in conjunction with the Company's unaudited consolidated financial statements as of September 30, 2017 and for the nine months ended September 30, 2017 and the notes thereto included elsewhere in this Offering Circular.

	As of September 30, 2017		As of September 30, 2017	
	Actual	**Actual**	**As Adjusted**	**As Adjusted**
	(in millions of ₱)	(in millions of US$)[2]	(in millions of ₱)	(in millions of US$)[2]
Total long-term indebtedness	69,919	1,369	69,919	1,369
Equity:				
Common stock	9,375	184	9,375	184
Preferred stock[3]	110	2	110	2
Additional paid-in capital	19,653	385	19,653	385
Senior perpetual capital securities	—	—	25,434	498
Undated subordinated capital securities	30,546	598	30,546	598
Retained earnings	47,166	923	47,166	923
Reserve for retirement plan	(1,342)	(26)	(1,342)	(26)
Other reserves[4]	(3,621)	(71)	(3,621)	(71)
Treasury shares	(10,000)	(196)	(10,000)	(196)
Total Equity Attributable to Equity Holders of the Parent Company[5]	91,887	1,799	117,321	2,297
Non-controlling interest	5,493	107	5,493	107
Total Equity	97,380	1,906	122,814	2,404
Total Capitalization	167,299	3,275	192,733	3,773

(1) Total capitalization constitutes long-term indebtedness (net of current portion of long-term debt) and equity.

(2) For the reader's convenience, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱51.073 = US$1.00, being the rate quoted on the BSP Reference Exchange Rate Bulletin for the purchase of U.S. dollars with Philippine Pesos on September 29, 2017.

(3) Preferred stock represents the 100,000,000 cumulative, non-participating and non-voting preferred shares issued by the Company on March 5, 2010 at an issue price of ₱100.00 (collectively, the "**2010 Preferred Shares**"). On March 5, 2015, the Company redeemed the 2010 Preferred Shares at ₱100.00 per share.

The Company also issued 10,000,000 cumulative, non-voting, non-participating and non-convertible perpetual series 2 preferred shares on November 3, 2014 at an issue price of ₱1,000.00 (the "**Series 2 Preferred Shares**"). The Company may, at its option, redeem the series 2 preferred shares sub-series A ("**Series 2A Preferred Shares**") on the fifth anniversary of the issue date or on any dividend payment date thereafter in whole but not in part at a prescribed redemption price and the sub-series B ("**Series 2B Preferred Shares**") on the seventh anniversary of the issue date or on any dividend payment date thereafter in whole but not in part at a prescribed redemption price.

(4) Other reserves pertain to unrealized fair value gains or losses on available-for-sale financial assets, exchange differences on translation of foreign operation and others.

(5) Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.

On August 8, 2017, the Board of Directors of the Company approved cash dividends for holders of its Series 2 Preferred Shares with the following details:

Type	Per share (₱)	Record date	Payment date
Series 2A Preferred Shares	15.75000	October 16, 2017	November 3, 2017
Series 2B Preferred Shares	17.14575	October 16, 2017	November 3, 2017
Series 2A Preferred Shares	15.75000	January 16, 2018	February 5, 2018
Series 2B Preferred Shares	17.14575	January 16, 2018	February 5, 2018

SELECTED FINANCIAL INFORMATION

The following tables present selected consolidated financial information for the Company and should be read in conjunction with the auditors' reports and with the Company's consolidated financial statements and notes thereto and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Offering Circular. The selected financial information presented below as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 have been derived from the audited consolidated financial statements, including the notes thereto, included elsewhere in this Offering Circular, audited by R.G. Manabat & Co. The selected financial information presented below as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 have been derived from the Company's unaudited interim consolidated financial information, reviewed by R.G. Manabat & Co. The consolidated financial information of the Company as of and for the nine months ended September 30, 2016 and 2017 have not been audited by the Company's independent auditor. As a result, the consolidated financial statements of the Company as of and for the nine months ended September 30, 2016 and 2017 should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Company's financial condition and results of operations. The Company's financial information included in this Offering Circular has been prepared in accordance with PFRS. The information below is not necessarily indicative of the results of future operations. Each of the Joint Lead Managers and any of their respective affiliates, directors, officers and advisers disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Company.

Selected Consolidated Statement of Income

	(Audited)				(Unaudited)		
	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	482,535	360,178	343,840	6,732	247,770	313,505	6,138
Cost of goods sold	463,404	328,734	306,125	5,994	221,164	281,151	5,505
Gross profit	19,131	31,444	37,715	738	26,606	32,354	633
Selling and administrative expenses	(11,526)	(13,310)	(13,918)	(272)	(9,765)	(10,283)	(201)
Interest expense and other financing charges	(5,528)	(5,533)	(7,557)	(148)	(5,496)	(6,523)	(127)
Interest income	844	686	507	10	379	359	7
Share in net income of an associate	102	133	66	1	77	63	1
Other income (expenses) — net	790	(3,495)	(2,435)	(47)	(1,244)	(400)	(8)
Income before income tax	3,813	9,925	14,378	282	10,557	15,570	305
Income tax expense	804	3,655	3,556	70	3,130	3,809	75
Net income	3,009	6,270	10,822	212	7,427	11,761	230

Selected Consolidated Statement of Financial Position

	(Audited)			(Unaudited)		
	As of December 31,			As of September 30,		
	2015	2016	2016	2016	2017	2017
	(in millions of ₱)		(in millions of US$)	(in millions of ₱)		(in millions of US$)
Current assets:						
Cash and cash equivalents	18,881	17,332	339	11,540	19,628	384
Financial assets at fair value through profit or loss	509	221	4	1,112	465	9
Available-for-sale financial assets	233	71	1	52	205	4
Trade and other receivables — net	30,749	31,548	618	26,608	32,204	631
Inventories	30,823	44,147	865	37,140	45,297	887
Other current assets	34,530	32,499	636	35,164	32,503	636
	115,725	125,818	2,463	111,616	130,302	2,551
Asset held for sale	—	—	—	—	1,760	35
Total current assets	115,725	125,818	2,463	111,616	132,062	2,586
Non-current assets:						
Available-for-sale financial assets	388	408	8	414	276	5
Property, plant and equipment — net	161,597	176,604	3,458	159,081	177,465	3,475
Investment in shares of stock of an associate	1,814	1,883	37	1,893	—	—
Investment property — net	112	91	2	92	90	2
Deferred tax assets — net	211	194	4	225	202	4
Goodwill — net	7,694	7,480	146	8,029	8,094	158
Other non-current assets — net	6,726	6,415	126	4,713	5,885	115
Total non-current assets	178,542	193,075	3,781	174,447	192,012	3,759
Total assets	294,267	318,893	6,244	286,063	324,074	6,345
Current liabilities:						
Short-term loans	99,481	90,366	1,769	83,963	71,748	1,405
Liabilities for crude oil and petroleum products	16,271	29,966	587	21,579	32,969	646
Trade and other payables	9,347	16,161	316	9,009	11,970	234
Derivative liabilities	603	778	15	439	1,364	27
Income tax payable	183	626	12	271	1,032	20
Current portion of long-term debt — net	694	20,911	410	5,847	22,890	448
Total current liabilities	126,579	158,808	3,109	121,108	141,973	2,780
Non-current liabilities						
Long-term debt — net of current portion	71,726	58,941	1,154	65,591	69,919	1,369
Retirement benefits liability	5,509	3,315	65	5,907	3,593	70
Deferred tax liabilities — net	4,638	5,726	112	5,549	7,296	143
Asset retirement obligation	1,809	2,324	46	1,880	2,449	48
Other non-current liabilities	906	959	19	967	1,464	29
Total non-current liabilities	84,588	71,265	1,396	79,894	84,721	1,659
Total liabilities	211,167	230,073	4,505	201,002	226,694	4,439
Equity Attributable to Equity Holders of the Parent Company*						
Capital stock	9,485	9,485	186	9,485	9,485	186
Additional paid-in capital	19,653	19,653	385	19,653	19,653	385
Undated subordinated capital securities	30,546	30,546	598	30,546	30,546	598
Retained earnings	41,712	42,011	822	43,393	47,166	923
Equity reserves	(8,767)	(7,204)	(141)	(7,943)	(4,963)	(97)
Treasury stock	(10,000)	(10,000)	(196)	(10,000)	(10,000)	(196)
Total Equity Attributable to Equity Holders of the Parent Company	82,629	84,491	1,654	85,134	91,887	1,799
Non-controlling interests	471	4,329	85	(73)	5,493	107
Total equity	83,100	88,820	1,739	85,061	97,380	1,906
Total liabilities and equity	294,267	318,893	6,244	286,063	324,074	6,345

* *Under the Company's financial statements, the "Parent Company" refers to Petron Corporation.*

Selected Consolidated Statement of Cash Flows

	(Audited)				(Unaudited)		
	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by (used in) operating activities	(737)	8,468	29,269	573	19,430	20,837	408
Net cash flows used in investing activities	(4,336)	(14,592)	(19,165)	(375)	(1,085)	(6,258)	(123)
Net cash flows provided by (used in) financing activities	45,165	(66,343)	(12,025)	(235)	(25,849)	(12,371)	(242)
Effect of exchange rate changes on cash and cash equivalents	112	746	372	7	163	88	2
Net increase (decrease) in cash and cash equivalents	40,204	(71,721)	(1,549)	(30)	(7,341)	2,296	45
Cash and cash equivalents at beginning of year	50,398	90,602	18,881	369	18,881	17,332	339
Cash and cash equivalents at end of year	90,602	18,881	17,332	339	11,540	19,628	384

Other Financial and Operating Data

	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱ except sales volume and ratios)			(in millions of US$)	(in millions of ₱ except sales volume and ratios)		(in millions of US$)
Sales volume ('000 barrels per day)	239	271	289	n/a	289	294	n/a
Net debt[1]	114,915	153,020	152,886	2,993	143,861	144,929	2,838
Ratio of total debt to equity	1.81	2.07	1.92	n/a	1.83	1.69	n/a
Ratio of net debt to equity	1.01	1.84	1.72	n/a	1.69	1.49	n/a
EBITDA[2]	23,718	28,654	29,510	578	30,090[7]	37,095[7]	726
Capital expenditures[3]	15,922	16,388	23,226	455	2,655	6,972	137
Total debt[4]	205,517	171,901	170,218	3,333	155,401	164,557	3,222
Ratio of EBITDA to net interest expense[5]	5.06	5.91	4.19	n/a	4.79[8]	4.58[8]	n/a
Ratio of net adjusted debt to EBITDA[6]	3.44	5.56	5.05	n/a	4.97[9]	4.25[9]	n/a

(1) Net debt represents the sum of short-term loans, current portion of long-term debts — net and long-term debts — net of current portion, less cash and cash equivalents.

(2) The Company defines EBITDA as income from operations plus depreciation and amortization plus/minus inventory loss/gain and realized commodity hedging loss/gain for a 12-month period. Income from operations is computed as gross profit less selling and administrative expenses. EBITDA is not a standard measure of the Company's financial condition or liquidity under PFRS. EBITDA should not be considered in isolation or construed as an alternative to net income or any other performance measures derived in accordance with PFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. The Company has included EBITDA because it believes it is a useful supplement to net income in measuring its operating performance. Other companies in the industry may calculate EBITDA differently or may use it for different purposes than the Company does, limiting its usefulness as a comparative measure.

The table below provides a computation for EBITDA.

	For the years ended December 31,				For the twelve months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Gross profit	19,131	31,444	37,715	738	35,006	43,463	851
Deduct:							
Selling and administrative expenses	(11,526)	(13,310)	(13,918)	(272)	(13,693)	(14,436)	(283)
Net operating income	7,605	18,134	23,797	466	21,313	29,027	568
Add/deduct:							
Depreciation and amortization	6,033	6,272	9,505	186	8,601	10,448	205
Inventory Gain/Loss and Realized Commodity Hedging Gain/Loss - net	10,080	4,248	(3,792)	(74)	176	(2,380)	(47)
EBITDA	23,718	28,654	29,510	578	30,090	37,095	726

(3) Capital expenditures represent the sum of additions to property, plant and equipment for the period.

(4) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.

(5) Net interest expense represents interest expense and other financing charges less interest income.

(6) Net adjusted debt represents short-term loans, plus current portion of long-term debts — net and long-term debts — net of current portion as of the period-end date, less cash and cash equivalents as of the period-end date. For the purpose of calculating this ratio, for each of the years ended December 31, 2014, 2015 and 2016 and for each of the twelve months ended September 30, 2016 and 2017, short-term loans are calculated as the average of the monthly closing balances of short-term loans. For the years ended December 31, 2014, 2015, and 2016 and for the twelve months ended September 30, 2016 and 2017, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the corresponding period then ended.

(7) Computed as EBITDA for last 12 months ending September 30.

(8) Computed as EBITDA (for the last 12 months ending September 30) divided by net interest expense at the end of 12-month period ended September 30.

(9) Computed as EBITDA (for the last 12 months ending September 30) divided by net adjusted debt at the end of the 12-month period ended September 30.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Company's financial condition and results of operations together with the audited and unaudited consolidated financial statements of the Company and the notes thereto included elsewhere in this Offering Circular.

Overview

Petron Corporation is the largest integrated oil refining and marketing company in the Philippines. It refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. The Company had an overall market share of approximately 31.5%* of the Philippine oil market in the first half of 2017 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE.

The Company's IMS-certified Petron Bataan Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of the second phase of RMP-2, a US$2 billion project for the Petron Bataan Refinery enables the Company to produce more valuable White Products and increase the Company's production of petrochemicals. The completion of RMP-2 made the Company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 11 terminals in Luzon, nine in the Visayas and seven in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of approximately 2,300 retail service stations in the Philippines as of September 30, 2017, the Company sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, a global fuel additives supplier. Regional customers of Innospec and the Company's own requirements are served from the output of the Subic plant.

The Company diversified into petrochemicals and in 2000 added a mixed xylene recovery unit to the Petron Bataan Refinery and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in PAHL, which owns PPI through a wholly owned subsidiary RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, the Company acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. As of July 25, 2016, the Company had increased its stake in PAHL to 100%.

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* Market share is derived from Company estimates based on Company information and data from the DOE for the first half of 2017. Company estimates exclude all direct imports by end users.

The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. For the third quarter of 2017, the Company ranked third in the Malaysian retail market with a 19.7% market share based on Company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research (now known as "The Concilium Group Sdn Bhd"), a market research consultant appointed by Malaysian retail market participants to compile industry data. With this acquisition, the Company extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. As of September 30, 2017, the Company had 10 product terminals and a network of approximately 600 retail service stations in Malaysia.

The Company's products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. The Company's revenues from these export sales amounted to ₱27.9 billion, or 8.1% of total sales, in 2016, and ₱26.5 billion, or 8.5% of total sales, for the nine months ended September 30, 2017.

In 2014, 2015 and 2016, and the first nine months of 2017, the Company's sales were ₱482.5 billion, ₱360.2 billion, ₱343.8 billion and ₱313.5 billion, respectively, and net income was ₱3.0 billion, ₱6.3 billion, ₱10.8 billion and ₱11.8 billion, respectively.

Factors affecting results of operations

The Company's financial condition and results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past and that the Company expects to affect its financial results in the future. Factors other than those set out below could also have a significant impact on the Company's financial condition and results of operations in the future.

Crude Oil Prices

Crude oil generally accounts for a large portion of the Company's total cost of goods sold. In the nine months ended September 30, 2017, crude oil accounted for approximately 50% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price, as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices.

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds crude oil and finished petroleum products inventory of approximately two months in the Philippines and approximately three weeks in Malaysia. The prices at which the Company sells its products generally rise and fall in line with international crude oil prices. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices would adversely affect the Company, as it would require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. See "Risk Factors — Risks Relating to the Company's Business and Operations — Volatility of the price of crude oil and petroleum products may have a material adverse effect on the Company's business, results of operations and financial condition." Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company.

The Company enters into commodity swaps and options to manage the price risks of crude oil and finished petroleum products. In 2013, the Company also started implementing measures to shorten the pricing cycle gap between its crude oil purchases and finished petroleum product sales. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner.

Governmental Regulation of Fuel Prices

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. Effective March 30, 2017, the government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on MOPS. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011." The Malaysian government may subsidize fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. In such instances, the Company's financial condition depends to a significant degree on the Malaysian government's prompt payment of these fuel subsidies. The Malaysian government has publicly stated that the country's fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy system is unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their application in the future without a corresponding commensurate increase in or elimination of the price ceiling. A substantial portion of the Company's revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices are high and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the mandated refined petroleum product price ceilings, the Company's financial condition and results of operations would be materially and adversely affected.

With respect to the Philippines, the Philippine government passed Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998, to liberalize and deregulate the downstream oil industry in order to ensure a truly competitive market. See "Regulatory and Environmental Matters — Philippines — Downstream Oil Industry Deregulation Law." However, the Philippine government has historically intervened from time to time to restrict increases in the prices of petroleum products. There can be no assurance that the Philippine government will not invoke price control measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

Competition

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national, regional and local competitors in the oil industry. In the oil industry, competitive factors generally include price, product quality, customer service, operational efficiency and distribution network. The Company's sales and results of operations will be affected by its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain quota allocation from the Malaysian government.

Foreign Exchange Rates

Substantial portions of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In 2016 and the nine months ended September 30, 2017, approximately 54% and 51%, respectively, of the Company's revenues

were denominated in Philippine Pesos, approximately 29% and 31%, respectively, of its revenues were denominated in Ringgit Malaysia, while approximately 75% and 70%, respectively, of its cost of goods sold were denominated in U.S. dollars. In addition, as of September 30, 2017, approximately 32% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. From January 1, 2014 to September 29, 2017, the value of the Peso against the U.S. dollar fluctuated from a low of ₱43.280 to a high of ₱51.799. In the same period, the value of the Ringgit Malaysia against the U.S. dollar fluctuated from a low of RM3.15 per U.S. dollar to a high of RM4.50 per U.S. dollar. See "Exchange Rates." Although the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

Regulatory Environment

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% VAT on the sale or importation of petroleum products in 2006. In 2012, in an effort to eradicate the problem of smuggling and illegal trading of petroleum products, the Philippine government issued a regulation stating that VAT and excise taxes due on imported petroleum products, including from entities in the free port and economic zones, must be paid by the importer through the Bureau of Customs. In Malaysia, the system of import duties and sales taxes was replaced by a goods and service tax effective April 1, 2015. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's financial condition and results of operations.

In addition, the Company is subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. Compliance with, and changes in, laws and regulations, including interpretations thereto, could result in substantial compliance costs and have other significant effects on the Company's business and operations. For example, in 2016 and the nine months ended September 30, 2017, the Company spent approximately ₱127.6 million and ₱194.4 million, respectively, and RM3.18 million and RM1.52 million, respectively, for treatment of wastes, monitoring and compliance, permits and personnel training at the Petron Bataan Refinery and Port Dickson Refinery, respectively.

Economic and Political Conditions in the Philippines and Malaysia

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. As a result, the Company's business, financial condition, results of operations and prospects are substantially influenced by the economic and political conditions in those countries. Although the Philippine and Malaysian economies have both experienced stable growth in recent years, both economies have in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the

imposition of exchange controls. Also, in the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous administrations. Sales of the Company's products are directly related to the strength of the Philippine and Malaysian economies (including overall growth levels and interest rates) and tend to decline during economic downturns. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products.

Capital Expenditure Projects and Financing

The Company's business is capital intensive and requires substantial capital expenditures. The Company has upgraded the Petron Bataan Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas to optimize operational efficiency, reduce costs and widen market reach. The Company will also continue to invest in its Malaysian operations to support retail expansion and improve operational efficiency. Specifically, the Company intends to (i) continue investment in the Petron Bataan Refinery to support the increased utilization of RMP-2 and improve refinery operations, (ii) continue the expansion of its retail service station, LPG and lubes network in the Philippines, (iii) expand and upgrade its logistics capacity, and (iv) expand Malaysia operations with new service station additions and facilities improvement in Port Dickson Refinery to enable it to produce Euro 5M-compliant fuels. See "Business — Capital Expenditures" for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial condition could be adversely affected.

In addition, the Company has incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. As of September 30, 2017, the Company had outstanding long-term debt (net of current portion of long-term debt) of ₱69.9 billion. The Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Investments in an Associate

In January 2011, the Company entered into a Share Sale and Purchase Agreement with MNHPI to purchase 35% of the outstanding capital stock of MNHPI.

In December 2014 and February 2015, the Company advanced ₱175 million and ₱525 million, respectively, as deposit for future subscription of MNHPI's shares. Following the approval of the increase in the authorized capital stock of MNHPI by the Philippine SEC, Petron was issued stock certificate for 7,000,000 shares in December 2015, representing 35% of the increase in the authorized capital stock of MNHPI. The cost of investment in MNHPI amounted to ₱1.405 billion as of December 31, 2016 and 2015.

On September 21, 2017, the Company signed the Share Purchase Agreement with International Container Terminal Services, Inc. ("**ICTSI**") for the sale by the Company of its 10,449,000 shares in MNHPI equal to 34.83% of MNHPI's outstanding shares for a total consideration of ₱1.750 billion. On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price was paid.

As the Company has owned minority equity interests in MNHPI beginning 2011, MNHPI has always been reflected in the Company's consolidated financial statements under the equity method of accounting.

Selected Consolidated Financial Data

The table below sets out selected results of operations from the Company's consolidated financial statements for the periods indicated:

	(Audited)						(Unaudited)			
	For the years ended December 31,						For the nine months ended September 30,			
	2014	% of Sales	2015	% of Sales	2016	% of Sales	2016	% of Sales	2017	% of Sales
	(in millions of ₱ except %)									
Sales	482,535	100.0	360,178	100.0	343,840	100.0	247,770	100.0	313,505	100.0
Cost of goods sold	463,404	96.0	328,734	91.3	306,125	89.0	221,164	89.3	281,151	89.7
Gross profit	19,131	4.0	31,444	8.7	37,715	11.0	26,606	10.7	32,354	10.3
Selling and administrative expenses	(11,526)	(2.4)	(13,310)	(3.7)	(13,918)	(4.0)	(9,765)	(3.9)	(10,283)	(3.3)
Interest expense and other financing charges	(5,528)	(1.1)	(5,533)	(1.5)	(7,557)	(2.2)	(5,496)	(2.2)	(6,523)	(2.0)
Interest income	844	0.2	686	0.2	507	0.1	379	0.2	359	0.1
Share in net income of an associate	102	0.0	133	0.0	66	0.0	77	0.0	63	0.0
Other income (expenses) — net	790	0.1	(3,495)	(1.0)	(2,435)	(0.7)	(1,244)	(0.5)	(400)	(0.1)
Income before income tax	3,813	0.8	9,925	2.7	14,378	4.2	10,557	4.3	15,570	5.0
Income tax expense	804	0.2	3,655	1.0	3,556	1.0	3,130	1.3	3,809	1.2
Net income	3,009	0.6	6,270	1.7	10,822	3.2	7,427	3.0	11,761	3.8

Description of Revenue and Cost Items

Sales

The Company generates its sales primarily from the domestic and international sales of petroleum and other related products and the operation of service stations and retail outlets. The Company also receives income from the collections of:

- insurance premiums from its operation of insurance and reinsurance; and
- leasing of acquired real estate properties for petroleum, refining, storage and distribution facilities.

The Company derives the majority of its sales from the Philippines, although revenue from Malaysia has represented a significant portion of the total since the second quarter of 2012. The following table sets forth the Company's sales by geographic region for the periods indicated:

	For the years ended December 31,				For the nine months ended September 30,		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Philippines	276,731	213,634	205,411	4,022	148,463	178,157	3,488
Export/International	205,804	146,544	138,429	2,710	99,307	135,348	2,650

Cost of Goods Sold

Cost of goods sold consists of:

- inventory costs, which are accounted for under the first-in first-out method, include the cost of crude oil and other products that the Company uses in the production of its products, including LPG, gasoline, diesel, jet fuel, kerosene, fuel oil, mixed xylene, propylene, benzene and toluene, and related inventory impairment charges;

- costs of distributing and transporting products;

- refinery operating expenses, which include repair and maintenance costs, purchased services and utilities, rent, taxes, insurance, depreciation costs relating to the Company's refinery facilities and employee costs for employees involved in the production process;

- costs of imported finished petroleum products; and

- other cost of sales, including specific taxes and wharfage.

Selling and Administrative Expenses

Selling and administrative expenses consist of:

- employee costs, which include salary and wages, employee benefits and retirement costs for employees except those involved in production;

- costs for purchased services and utilities, which include professional fees, manpower services and communication expenses;

- depreciation and amortization costs that relate to the depreciation of service stations and depot facilities;

- advertising and promotion expenses, which include the cost of media advertisements, event sponsorships, billboards and other marketing and promotional activities; and

- impairment losses on trade and other receivables.

Selling and administrative expenses also consist of repairs and maintenance expenses for the Company's service stations and terminal facilities, information technology systems and other office equipment, rental expenses, materials and office supplies, taxes and licenses and research and development costs.

Interest Income and Expense

Interest expense and other financing charges primarily include interest on short-term loans and long-term debt and other bank charges. Interest income primarily includes interest income from money market placements, government securities and trade receivables.

Other Income (Expenses) — Net

Other income (expenses) — net primarily includes foreign currency gains (net of foreign currency losses), commodity hedging gains (net of commodity hedging losses), marked-to-market gains (net of marked-to-market losses), changes in fair value of financial assets, insurance claims and gains/losses on sale or retirement of assets.

Income Tax Expense

Income tax expense primarily consists of income taxes payable by the Company and its operating subsidiaries in the jurisdictions in which they conduct their operations.

Segment Data

The Company's management identifies reporting segments based on business and geographical locations. The major sources of revenues are recognized from the following business segments: (i) sales of petroleum and other related products; (ii) insurance; (iii) lease of acquired real estate properties and other related structures; and (iv) marketing, including sales on wholesale or retail and operation of service stations, retail outlets, etc. In respect of geographical segments, the Company identifies these as (i) Philippine or local, and (ii) export or international. For a further description of the Company's segment results, including revenue and income information and certain asset and liability information, see note 5 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 37 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

Significant Accounting Policies

The preparation of the Company's consolidated financial statements in accordance with PFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and the related notes. Actual results may differ from those estimates and assumptions. For a description of the Company's significant accounting policies, see note 3 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 3 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

The Company uses the first-in, first-out method of inventory valuation in costing petroleum products (except lubes and greases and solvents), crude oil and other products in its financial statements as this method more likely approximates the physical movement of cost and inventories in the Company's operations. In respect of lubes and greases, solvents, polypropylene materials and supplies inventories, cost is determined using the moving-average method. Given the volatile nature of the oil industry, however, cost of all inventories is determined using the moving-average method for income tax reporting purposes to mitigate the potential volatility of the Company's taxable income and tax payments.

The Company uses the straight-line method of depreciating its property, plant and equipment as well as investment property as the utilization of assets remains relatively constant over the economic useful life of such assets. For income tax purposes, depreciation and amortization are computed using the double declining balance method permitted under Philippine tax laws.

Results of Operations

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

	(Unaudited)				
	For the nine months ended September 30				
	2016	% of Sales	2017	% of Sales	% Change
	(in millions of ₱ except %)				
Sales	247,770	100.0	313,505	100.0	26.5
Cost of goods sold	221,164	89.3	281,151	89.7	27.1
Gross profit	26,606	10.7	32,354	10.3	21.6
Selling and administrative expenses	(9,765)	(3.9)	(10,283)	(3.3)	5.3
Interest expense and other financing charges	(5,496)	(2.2)	(6,523)	(2.0)	18.7
Interest income	379	0.2	359	0.1	(5.3)
Share in net income of an associate	77	0.0	63	0.0	(18.2)
Other expenses — net	(1,244)	(0.5)	(400)	(0.1)	(67.8)
Income before income tax	10,557	4.3	15,570	5.0	47.5
Income tax expense	3,130	1.3	3,809	1.2	21.7
Net income	7,427	3.0	11,761	3.8	58.4

Sales

Sales increased by 26.5% to ₱313.5 billion in the nine months ended September 30, 2017 from ₱247.8 billion in the nine months ended September 30, 2016. The increase was a result of an increase in sales volume from 79.3 million barrels in 2016 to 80.3 million barrels in 2017 due to stronger sales in Malaysia resulting from the Company's aggressive network expansion and marketing initiatives. Sales also increased due to an increase in average selling prices traced to the increase in regional market prices of finished products and the continued focus on higher value market segments including gasoline, petrochemicals and jet fuel in the Philippines.

Cost of Goods Sold

Cost of goods also increased by 27.1% to ₱281.1 billion in 2017 from ₱221.2 billion in 2016. This increase was driven by higher prices of crude and imported products partially offset by the depreciation of the Philippine Peso against the US dollar and higher volume of products sold. During the period, benchmark crude Dubai averaged US$51/bbl, 31% higher than the US$39/bbl last year.

Gross Profit

As a result of the foregoing and along with better product cracks, gross profit increased by 21.6% to ₱32.4 billion in 2017 from ₱26.6 billion in 2016. Gross profit margin remained relatively stable slightly decreasing, from 10.7% to 10.3%.

Selling and Administrative Expenses

Selling and administrative expenses increased by 5.3% to ₱10.3 billion for the nine months ended September 30, 2017 from ₱9.8 billion for the nine months ended September 30, 2016, primarily due to an increase in LPG cylinder purchases in line with the Company's strategy to focus on higher value market segments and an increase in rent expenses as part of the Company's network expansion program.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 18.7% from ₱5.5 billion for the nine months ended September 30, 2016 to ₱6.5 billion for the nine months ended September 30, 2017 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**").

Interest Income

Interest income decreased by 5.3% from ₱379 million in 2016 to ₱359 million in 2017, primarily due to lower average placements and interest rates.

Share in Net Income of an Associate

Share in net income of an associate decreased by 18.2% from ₱77 million for the nine months ended September 30, 2016 to ₱63 million for the same period in 2017. This decrease was primarily due to lower net income recorded by MNHPI as a result of higher operating expenses in 2017.

Other expenses — net

Other expenses — net was ₱1.2 billion for the nine months ended September 30, 2016 compared to ₱0.4 billion for the same period in 2017, mainly because of lower foreign currency losses recorded in 2017. Net US dollar liabilities were US$0.8 billion as of September 30, 2017 compared to US$1.2 billion for the same period in 2016.

Income Tax Expense

Tax expense increased by 21.7% to ₱3.8 billion in for the nine months ended September 30, 2017 from ₱3.1 billion for the same period 2016, primarily due to higher pre-tax income.

Net Income

As a result of the foregoing, net income increased by 58.4% to ₱11.8 billion for the nine months ended September 30, 2017 from ₱7.4 billion for the same period in 2016.

Year ended December 31, 2016 compared to the year ended December 31, 2015

	(Audited)				
	For the years ended December 31,				
	2015	% of Sales	2016	% of Sales	% Change
	(in millions of ₱ except %)				
Sales	360,178	100.0	343,840	100.0	(4.5)
Cost of goods sold	328,734	91.3	306,125	89.0	(6.9)
Gross profit	31,444	8.7	37,715	11.0	19.9
Selling and administrative expenses	(13,310)	(3.7)	(13,918)	(4.0)	4.6
Interest expense and other financing charges	(5,533)	(1.5)	(7,557)	(2.2)	(36.6)
Interest income	686	0.2	507	0.1	(26.1)
Share in net income of an associate	133	0.0	66	0.0	(50.4)
Other income (expenses) — net	(3,495)	(1.0)	(2,435)	(0.7)	(30.3)
Income before income tax	9,925	2.7	14,378	4.2	44.9
Income tax expense	3,655	1.0	3,556	1.0	(2.7)
Net income	6,270	1.7	10,822	3.2	72.6

Sales

Sales decreased by 4.5% to ₱343.8 billion in 2016 from ₱360.2 billion in 2015. The 7% increase in sales volume from 99.1 million barrels in 2015 to 105.7 million barrels in 2016 was primarily due to service station network expansion, various marketing initiatives and greater participation in key industries such as power generation and aviation. This was offset by lower average prices for petroleum products due to the drop in crude oil price in 2016. The benchmark Dubai crude averaged US$41.27/barrel in 2016, 19% lower than the full year 2015 average of US$50.91/barrel. Meanwhile, the drop in prices was tempered by the ₱2.00 average depreciation of the Peso vis-a-vis the US dollar.

Cost of Goods Sold

Cost of goods sold decreased by 6.9% to ₱306.1 billion in 2016 from ₱328.7 billion in 2015. This decrease was primarily the result of lower cost of crude and imported finished products, offset by the higher volume sold.

Gross Profit

As a result of the foregoing, together with the net inventory gains realized during 2016, a turnaround from the net inventory loss reported in the previous year, though partly negated by lower product cracks, gross profit increased by 19.9% to ₱37.7 billion in 2016 from ₱31.4 billion in 2015. Gross profit margin increased, from 8.7% to 11.0%.

Selling and Administrative Expenses

Selling and administrative expenses increased by 4.6% to ₱13.9 billion in 2016 from ₱13.3 billion in 2015, primarily due to the service stations' higher expenses, warehousing and terminal fees and accrual of retirement benefits.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 36.6% from ₱5.5 billion in 2015 to ₱7.5 billion in 2016. The increase was primarily due to the absence of capitalized interest from RMP-2 project financing tempered by lower interest expense from reduced borrowing level as well as lower bank charges.

Interest Income

Interest income decreased by 26.1% from ₱686 million in 2015 to ₱507 million in 2016, primarily due to lower average placements and interest rates.

Share in Net Income of an Associate

Share in net income of an associate decreased by 50.4% from ₱133 million in 2015 to ₱66 million in 2016. This decrease was primarily due to lower net income recorded by MNHPI as a result of higher operating expenses in 2016.

Other income (expenses) — net

Other expenses — net was ₱3.5 billion in 2015 compared to Other expenses — net of ₱2.4 billion in 2016, mainly because of lower foreign currency losses recorded in 2016.

Income Tax Expense

Tax expense decreased by 2.7% to ₱3.6 billion in 2016 from ₱3.7 billion in 2015, primarily due to the availment of the income tax holiday incentive of RMP-2.

Net Income

As a result of the foregoing, net income increased by 72.6% to ₱10.8 billion in 2016 from ₱6.3 billion in 2015.

Year ended December 31, 2015 compared to year ended December 31, 2014

	(Audited)				
	For the years ended December 31,				
	2014	**% of Sales**	**2015**	**% of Sales**	**% Change**
	(In millions of ₱ except %)				
Sales	482,535	100.0	360,178	100.0	(25.4)
Cost of goods sold	463,404	96.0	328,734	91.3	(29.1)
Gross profit	19,131	4.0	31,444	8.7	64.4
Selling and administrative expenses	(11,526)	(2.4)	(13,310)	(3.7)	15.5
Interest expense and other financing charges	(5,528)	(1.1)	(5,533)	(1.5)	0.1
Interest income	844	0.2	686	0.2	(18.7)
Share in net income of an associate	102	0.0	133	0.0	30.4
Other income (expenses) — net	790	0.1	(3,495)	(1.0)	(542.4)
Income before income tax	3,813	0.8	9,925	2.7	160.3
Income tax expense	804	0.2	3,655	1.0	354.6
Net income	3,009	0.6	6,270	1.7	108.4

Sales

Sales decreased by 25.4% from ₱482.5 billion in 2014 to ₱360.2 billion in 2015. The decrease was primarily a result of a drop in selling prices as benchmark regional market prices of finished products fell along with the slump in global crude oil prices. During the year, reference crude Dubai averaged US$50.9/bbl, almost half of US$96.6/bbl in 2014. The decline in revenues from the lower selling prices was partially tempered by the increase in sales volume, which increased by 14% to 99.1 million barrels from 87.1 million barrels in 2014.

Cost of Goods Sold

Cost of goods sold decreased by 29.1% from ₱463.4 billion in 2014 to ₱328.7 billion in 2015. This decrease was primarily the result of cheaper cost of crude and imported products. There was also a decrease in refinery expenses and fuel due to cheaper refinery fuel amid higher production run.

Gross Profit

As a result of the foregoing, gross profit increased by 64.4% from ₱19.1 billion in 2014 to ₱31.4 billion in 2015.

Selling and Administrative Expenses

Selling and administrative expenses increased by 15.5% from ₱11.5 billion in 2014 to ₱13.3 billion in 2015, primarily due to the accrual of retirement expense, depreciation and real property taxes of terminals and new service stations, third party terminal fees due to the transfer out of the Pandacan terminals, increased promotion and advertising activities, and increased LPG cylinder purchases.

Interest Expense and Other Financing Charges

Interest expense and other financing charges remained relatively unchanged from ₱5.52 billion in 2014 to ₱5.53 billion in 2015.

Interest Income

Interest income decreased by 18.7% from ₱844 million in 2014 to ₱686 million in 2015 mainly due to lower advances to related parties.

Share in Net Income of an Associate

Share in net income of an associate was ₱102 million in 2014, compared with the Company's share in net income of an associate of ₱133 million in 2015. The change was primarily due to higher net income recorded by MNHPI in 2015 versus 2014.

Other Income (Expense) — Net

Other income — net was ₱790 million in 2014, compared with other expenses — net of ₱3.5 billion in 2015. The increase was due to marked-to-market (MTM) losses on outstanding commodity hedge positions during the year versus MTM gains in 2014, coupled with the higher cost of foreign currency swap hedges.

Income Tax Expense

Income tax expense increased significantly to ₱3.7 billion in 2015 compared with ₱804 million in 2014 primarily as a result of higher pre-tax income in 2015.

Net Income

As a result of the foregoing, net income increased significantly from ₱3.0 billion in 2014 to ₱6.3 billion in 2015.

Liquidity and Capital Resources

The Company's principal sources of funds have historically been net cash flows from operating activities and debt and equity financing. The Company's principal use of funds has historically been to fund its working capital and capital expenditure requirements. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the remainder of 2017 primarily from a combination of net cash flows provided by operating activities and external financing sources. The Company may from time to time seek external sources of funding, which may include debt or equity financing, depending on its financing needs and market conditions. The incurrence of additional debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict the Company's operations. If the Company is unable to obtain additional financing as required, its business, results of operations, financial condition and prospects may be adversely affected.

The following table sets forth the Company's cash flows for the periods indicated:

	(Audited)				(Unaudited)		
	For the years ended December 31,				For the period ended September 30		
	2014	2015	2016	2016	2016	2017	2017
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by (used in) operating activities	(737)	8,468	29,269	573	19,430	20,837	408
Net cash flows used in investing activities	(4,336)	(14,592)	(19,165)	(375)	(1,085)	(6,258)	(123)
Net cash flows provided by (used in) financing activities	45,165	(66,343)	(12,025)	(235)	(25,849)	(12,371)	(242)
Effect of exchange rate changes on cash and cash equivalents	112	746	372	7	163	88	2
Net increase (decrease) in cash and cash equivalents	40,204	(71,721)	(1,549)	(30)	(7,341)	2,296	45
Cash and cash equivalents at beginning of year	50,398	90,602	18,881	369	18,881	17,332	339
Cash and cash equivalents at end of year	90,602	18,881	17,332	339	11,540	19,628	384

Net Cash Flows Provided by (Used in) Operating Activities

For the nine months ended September 30, 2017, net cash flows provided by operating activities amounted to ₱20.8 billion. The Company's income before income tax was ₱15.6 billion. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱30.9 billion. The Company paid interest of ₱5.6 billion and income taxes of ₱1.3 billion for the period.

Net cash flows provided by operating activities for the year ended December 31, 2016 was ₱29.3 billion. The Company's income before income tax was ₱14.4 billion. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱32.5 billion. The Company paid interest of ₱7.0 billion and income taxes of ₱0.9 billion for the period.

Net cash flows provided by operating activities for the year ended December 31, 2015 was ₱8.5 billion. The Company's income before income tax was ₱9.9 billion. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱21.7 billion. The Company paid interest of ₱8.0 billion and income taxes of ₱0.5 billion for the period.

Net cash flows used in operating activities for the year ended December 31, 2014 was ₱0.7 billion. The Company's income before income tax was ₱3.8 billion. Cash generated by operating income (after adding back non-cash items and before working capital changes) was ₱12.5 billion. The Company paid interest of ₱8.1 billion and income taxes of ₱0.5 billion for the period.

Net Cash Flows Used in Investing Activities

For the nine months ended September 30, 2017, net cash flows used in investing activities was ₱6.3 billion. This primarily reflected additions to property, plant and equipment of ₱7.0 billion in relation to the Company's capital programs at the Petron Bataan Refinery and Port Dickson Refinery and terminals and expansion of the service station network in the Philippines and Malaysia. These were partially offset by the sale of certain property and equipment used for service stations in Malaysia.

Net cash flows used in investing activities was ₱19.2 billion in 2016. This primarily reflected additions to property, plant and equipment of ₱19.1 billion in relation to the expansion of the Company's service station network in the Philippines and Malaysia and increases in other noncurrent assets due to deferral of input tax from the purchase of the cogeneration power plant from SMC Powergen, Inc.

Net cash flows used in investing activities was ₱14.6 billion in 2015. This primarily reflected additions to property, plant and equipment of ₱13.5 billion and increases in other noncurrent assets, other receivables and investment in shares of stock of an associate.

Net cash flows used in investing activities was ₱4.3 billion in 2014. This primarily reflected additions to property, plant and equipment of ₱12.6 billion, primarily in relation to the capital expenditures at the Petron Bataan Refinery and in Malaysia. This was tempered by the partial collection of advances to PCERP.

Net Cash Flows Provided by (Used in) Financing Activities

For the nine months ended September 30, 2017, net cash flows used in financing activities was ₱12.4 billion. The main component of this was proceeds from loans of ₱186.5 billion. The Company made repayment of loans amounting to ₱193.8 billion and payments of cash dividends on capital stock and distributions on the undated subordinated capital securities in an aggregate amount of ₱5.6 billion.

Net cash flows used in financing activities was ₱12.0 billion in 2016. The main component of this was proceeds from loans of ₱226.4 billion and offset in part by the repayment of loans of ₱230.9 billion and the Company's payment of cash dividends on capital stock and distributions on the undated subordinated capital securities in an aggregate amount of ₱5.5 billion.

Net cash flows used in financing activities were ₱66.3 billion in 2015. The main component of this was proceeds from loans of ₱222.1 billion. This offset in part by the repayment of loans of ₱256.7 billion, the redemption of preferred shares in the amount of ₱25.6 billion and the Company's payment of cash dividends on capital stock and distributions on the undated subordinated capital securities in an aggregate amount of ₱5.5 billion.

Net cash flows provided by financing activities were ₱45.2 billion in 2014. The main component of this was proceeds from loans of ₱360.3 billion and proceeds of ₱9.9 billion from the issuance of preferred shares of the Company, offset in part by the repayment of loans of ₱320.9 billion and the payment of cash dividends on capital stock and distributions on the undated subordinated capital securities in an aggregate amount of ₱5.7 billion.

Capital Resources

As of September 30, 2017, the Company had cash and cash equivalents of ₱19.63 billion. As of the same date, the Company had total outstanding short-term debt of ₱71.7 billion in the form of unsecured Peso loans.

As of September 30, 2017, the Company had total outstanding long-term debt (excluding current portion of long-term debt) of ₱69.9 billion. The Company obtained these loans from various financial institutions under several credit facilities. All of the Company's long-term borrowings are unsecured. As of the date of this Offering Circular, the Company's long-term debt agreements include requirements to maintain certain specified financial ratios, including a ratio of consolidated net adjusted debt to consolidated EBITDA and a ratio of consolidated gross debt to consolidated net worth.

As of the date of this Offering Circular, the Company is in compliance with the covenants in its long-term debt agreements.

The following table sets forth a summary of the maturity profile of the outstanding long-term borrowings of the Company for the years 2017 to 2021 and beyond as of September 30, 2017:

Payments Due by Period	**Amount**
	(in millions of ₱)
Repayment within the fourth quarter of 2017	20,572
2018	3,821
2019	11,883
2020	11,883
2021 and beyond*	45,750
Total	93,909

* 2021 through 2024 as follows: 2021: approximately ₱27,502 million; 2022: approximately ₱7,498 million; 2023: approximately ₱9,143 million; 2024: approximately ₱1,607 million.

The following table sets forth the Company's outstanding long-term debt (net of debt issue cost) by the currency in which they are denominated as of September 30, 2017.

Currency	**as of September 30, 2017**
	(in millions of ₱)
Peso	63,118
USD	29,691
Ringgit	—
Total outstanding long-term debt	92,809

The following table sets forth the Company's outstanding long-term debt (net of debt issue cost) by fixed or floating interest rate terms as of September 30, 2017.

	as of September 30, 2017
	(in millions of ₱)
Fixed rate	63,118
Floating rate	29,691
Total outstanding long-term debt	92,809

Capital Expenditures

Over the past several years, the Company has made significant capital expenditures to maintain and upgrade the Petron Bataan Refinery, to expand its retail service station network in the Philippines, and to upgrade its service stations in Malaysia. In 2014, 2015 and 2016, the Company's capital expenditures were ₱15.9 billion, ₱16.4 billion and ₱23.2 billion, respectively, which primarily related to expenditures for RMP-2. The Company's capital expenditures for the nine months ended September 30, 2017 were ₱7.0 billion. The Company has historically funded its capital expenditures with net cash flows provided by operating activities and debt or equity financing.

The Company's estimated consolidated capital expenditures for 2017 are approximately ₱10.1 billion, primarily to fund the expansion of its retail service station network in the Philippines and Malaysia and upgrading of its logistics network. These capital expenditures are expected to be funded by a combination of internal cash generation and external financing sources. The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine and Malaysian economies, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements. The Company has, however, entered into derivative transactions to manage its exposures to currency exchange rates and fluctuating commodity prices. See "— Derivative Financial Instruments."

Derivative Financial Instruments

The Company has entered into derivative financial instrument transactions, including swaps, options and forwards, to manage its exposures to exchange rates and fluctuating commodity prices. A more detailed description of the Company's derivative financial instruments is set forth in note 10 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 35 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to various types of market risks in the ordinary course of business, including interest rate risk, foreign currency exchange rate risk, credit risk, liquidity risk, commodity price risk and market price risk.

Interest Rate Risk

The Company's exposure to interest rate risk relates mainly to long-term borrowings and investment securities. Increases in interest rates will increase the Company's expenses on outstanding variable rate borrowings and the cost of new borrowings, and therefore could have a material adverse effect on the Company's financial results. The Company manages its interest rate risk exposure by using a combination of fixed and variable rate debt instruments. For more information regarding the Company's interest rate risk exposure, see note 9 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

Foreign Currency Exchange Rate Risk

The substantial majority of the Company's revenues are denominated in either Philippine Pesos or Ringgit Malaysia, while the substantial majority of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In 2016 and the nine months ended September 30, 2017, 54% and 51%, respectively, of the Company's revenues were denominated in Philippine Pesos. During the same periods, 29% and 31%, respectively, of the Company's revenues were denominated in Ringgit Malaysia, and 17% and 18%, respectively, were denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso relative to the U.S. dollar would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar-denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Although the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition. For a discussion regarding the Company's sensitivity to exchange rate fluctuations and related derivative instruments, see notes 9 and 10 to the Company's unaudited consolidated interim financial statements as of and for the period ended September 30, 2017 and notes 34 and 35 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

The following table sets forth the Company's foreign currency denominated financial assets and liabilities as of December 31, 2016, September 30, 2016 and September 30, 2017:

	(Audited)	(Unaudited)	(Unaudited)
	As of December 31	As of September 30	
	2016	2016	2017
	(in millions of US$)		
Financial assets	484	342	520
Financial liabilities	1,312	1,525	1,271
Net foreign currency — denominated monetary liabilities	828	1,183	751

The exchange rates used to restate the U.S. dollar-denominated financial assets and liabilities stated above is ₱49.72, ₱48.50, ₱50.82 per U.S. dollar, which were the closing rates quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on December 31, 2016, September 30, 2016 and September 29, 2017, respectively.

Credit Risk

The Company's exposure to credit risk primarily relates to its trade and other receivables. Generally, the Company's maximum credit risk exposure in the event of customers' and counterparties' failure to perform their obligations is the total carrying amount of the financial assets as shown on the statement of financial position. The Company has no significant concentration of credit risk since it deals with a large number of homogenous trade customers. In order to minimize the credit risk, the Company measures, monitors and manages the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures. For more information regarding the Company's credit risk exposure, see note 9 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

Liquidity Risk

The Company is exposed to the possibility that adverse changes in the business environment or its operations could result in substantially higher working capital requirements and, consequently, a difficulty in financing additional working capital. The Company manages its liquidity risk by monitoring its cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital. In addition, the Company regularly evaluates other financing instruments and arrangements to broaden its sources of financing. For more information regarding the maturity of the Company's financial liabilities, see note 9 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 and note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Offering Circular.

Commodity Price Risk

Crude oil typically accounts for approximately 50% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price, as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices. In addition, the Company's Malaysian operations are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is significantly affected by the allocation of the applicable quotas by the Malaysian government. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011."

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds crude oil finished products inventory of approximately two months in the Philippines and approximately three weeks in Malaysia. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices would adversely affect the Company as it would require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices. Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. The Company enters into commodity swaps and options to manage the price risks of crude oil and products. In 2013, the Company also started implementing measures

to shorten the pricing cycle gap between its crude oil purchases and finished petroleum product sales. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner. For a discussion regarding the Company's commodity price risk exposure and related derivative instruments, see note 9 to the Company's unaudited consolidated interim financial statements as of and for the nine months ended September 30, 2017 included and note 34 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2016 elsewhere in this Offering Circular.

Market Price Risk

The Company's market price risk arises from its investments carried at fair value. The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The information and data contained in this section has been taken from publicly available sources, including the Economist Intelligence Unit, International Energy Agency, International Monetary Fund, Malaysia Energy Information Hub, the DOE and U.S. Energy Information Administration. The Company does not have any knowledge that the information provided herein is inaccurate in any material respect. Neither the Company, the Joint Lead Managers nor any of their respective affiliates or advisors has independently verified the information included in this section.

Global and Regional Oil Market

Global oil demand is forecast to grow by 1.5 million barrels per day ("**mmbpd**") in 2017 to 97.7 mmbpd, and by 1.3 mmbpd in 2018, according to the International Energy Agency ("**IEA**"). This represents annual changes of 1.6% and 1.3% for 2016/2017 and 2017/2018, respectively. The modest growth forecast for 2017 reflects the impact of rising prices and relatively mild early winter temperatures.

Growth projections are primarily driven by emerging markets and developing economies, including countries such as China and India which are outside of the Organization for Economic Co-operation and Development ("**OECD**") group. Having risen by around 2.5% in the third quarter of 2017 to 50.6 mmbpd, non-OECD demand is forecast to continue driving oil demand growth globally, according to the IEA. This compares with an expected decline of 0.5% for OECD oil demand over the same period.

The divide in growth outlook between emerging markets and developing economies, compared with advanced economies, is also reflected more broadly in economic forecasts. For 2017, the International Monetary Fund projects real global gross domestic product ("**GDP**") growth of 2.2% for North America and 2.1% for the Eurozone, compared with real GDP growth of 6.8% and 6.7% for China and India, respectively.

Global Oil Demand (2016 — 2018E)

Million barrels per day (mmbpd, except percentages)

	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18	4Q18	2018
Americas	31.1	31.11	31.7	31.4	**31.3**	30.9	31.5	31.6	31.6	**31.4**	31.2	31.6	32.0	31.8	**31.7**
Asia/Pacific	33.4	32.8	32.2	33.3	**32.9**	34.2	33.9	33.2	34.2	**33.9**	35.0	34.4	33.8	35.1	**34.6**
Europe	14.3	14.6	15.2	14.9	**14.8**	14.6	15.0	15.4	14.9	**15.0**	14.5	15.0	15.4	15.0	**15.0**
Middle East	7.9	8.4	8.77	8.1	**8.3**	7.9	8.5	8.7	8.2	**8.3**	8.1	8.6	8.9	8.3	**8.5**
FSU	4.6	4.6	4.9	4.9	**4.8**	4.6	4.7	5.0	4.9	**4.8**	4.7	4.8	5.1	5.0	**4.9**
Africa	4.2	4.2	4.00	4.1	**4.1**	4.3	4.2	4.1	4.3	**4.2**	4.5	4.3	4.2	4.4	**4.3**
Global—Total	**95.4**	**95.6**	**96.7**	**96.8**	**96.1**	**96.6**	**97.8**	**98.0**	**98.2**	**97.7**	**97.9**	**98.7**	**99.4**	**99.7**	**98.9**
Annual Chg (%)	*2.1*	*1.3*	*0.7*	*1.5*	***1.4***	*1.2*	*2.3*	*1.4*	*1.5*	***1.6***	*1.4*	*0.9*	*1.4*	*1.5*	***1.3***
Annual Chg	*1.9*	*1.2*	*0.7*	*1.4*	***1.3***	*1.2*	*2.2*	*1.3*	*1.4*	***1.5***	*1.3*	*0.9*	*1.4*	*1.5*	***1.3***

Note: Figures from 3Q17 onwards are estimates. Numbers may not tally due to rounding

Source: Oil Market Report, International Energy Agency (November 2017).

Asia Pacific oil demand has continued to drive growth during 2017. Asia-Pacific accounts for approximately 35% of expected global oil demand for 2017, and over 50% of the oil demand growth expected in 2018.

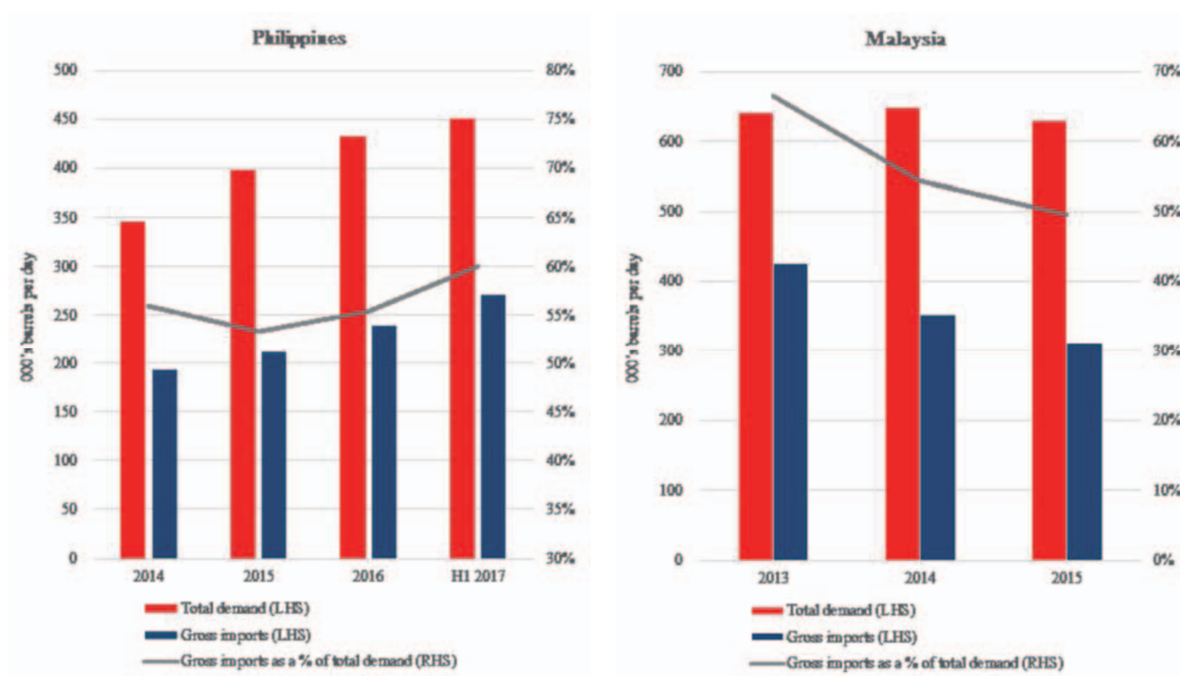
Asia Pacific demand for refined fuels will outperform other regions with the strongest gains seen in the region's emerging markets, including India, Indonesia, Pakistan, Vietnam, Thailand and the Philippines, supported by macroeconomic and demographic tailwinds, rapidly rising car ownership

and an increasingly affluent consumer base. Demand for low-sulphur middle distillates (diesel) will enjoy robust growth post-2020, particularly in countries with significant shipping sectors, in line with tightening international fuel standards. In October 2016, the International Maritime Organisation ("**IMO**") ruled to cap the sulphur content of marine fuels sold worldwide at 0.5% from 2020.

The Philippine and Malaysian Oil Markets

The Philippines and Malaysia are importers of finished petroleum products. The charts below show demand, imports, and imports as a percentage of demand, for the periods indicated.

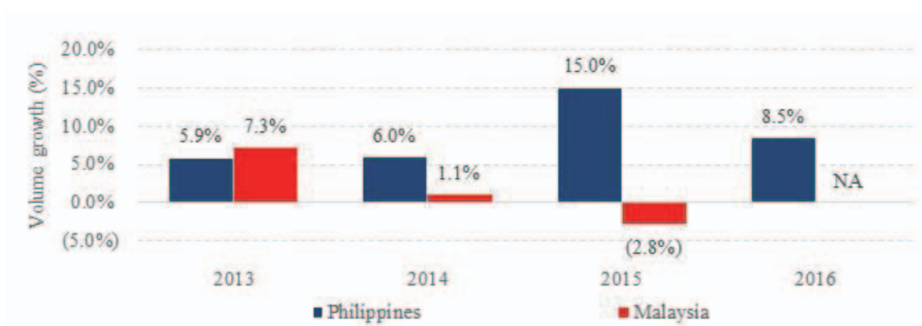
Demand and imports for finished petroleum products



Source: DOE, Suruhanjaya Tenaga (Energy Commission) Malaysia

The petroleum products industries in the Philippines and Malaysia have generally experienced growth since 2013, as shown in the chart below.

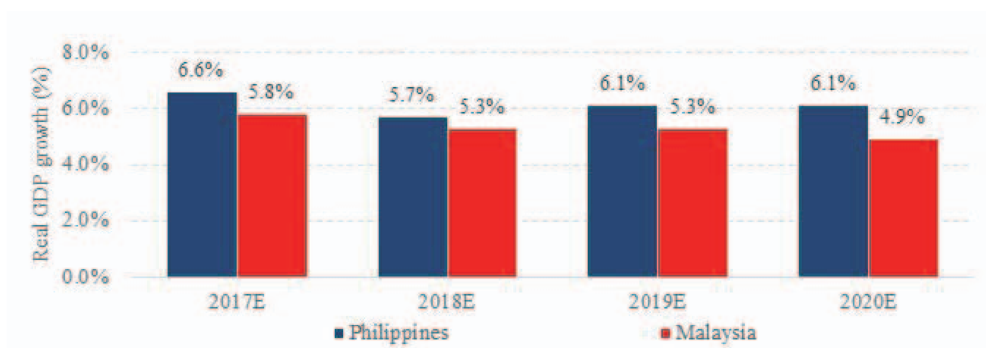
Petroleum products demand growth



Source: DOE, Suruhanjaya Tenaga (Energy Commission) Malaysia

According to the Economist Intelligence Unit, the Philippine and Malaysian economies are expected to exhibit stable real GDP growth at annual rates between 4.9% and 6.6%, as indicated in the chart below. This favorable economic backdrop is expected to contribute to energy and refined products demand growth in these countries.

Real GDP growth



Source: Economist Intelligence Unit.

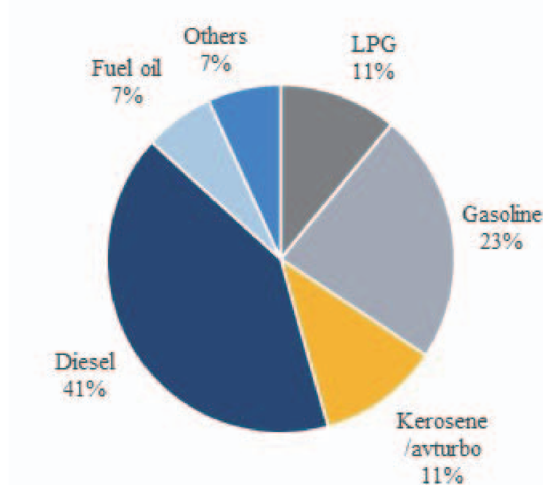
Philippine Oil Market

Based on data from the Philippine Department of Energy ("**DOE**"), crude oil imports in the Philippine oil market for the first half of 2017 totaled 35.8 million barrels ("**mmbbls**"), down 5.7% from the first half of 2016 of 37.9 million barrels. The majority of crude oil imports to the Philippines have been from the Middle East. In the first half of 2017, approximately 86% of crude oil imports were sourced from the Middle East, of which Saudi Arabia accounted for 34.9%, Kuwait for 28.4%, followed by 15.6% from the UAE. After the Middle East, Russia was the next largest source of crude oil for the Philippines, accounting for 7.8% of imports in the first half of 2017.

Petroleum products demand grew by 2.6% to 81.1 mmbbls (an average daily requirement of 448 thousands of barrels per day ("**kbpd**")) for the first six months of 2017. The chart below shows demand by product for the first half of 2017.

Philippine demand breakdown by product

Six months ended June 30, 2017; As % of total demand

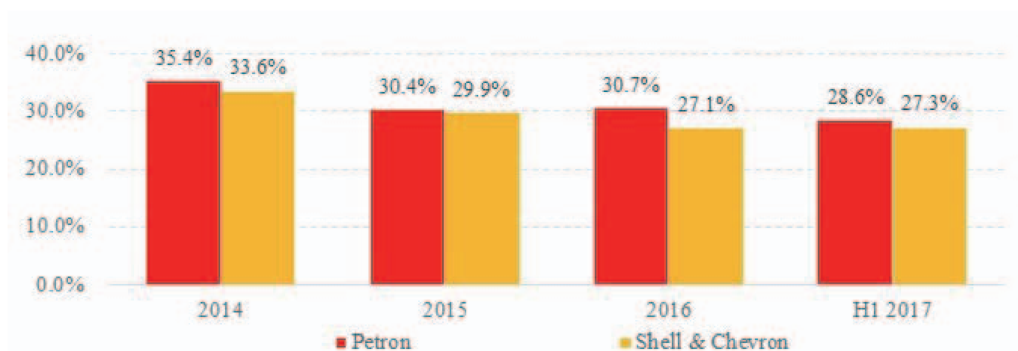


Source: Philippines Department of Energy

Oil refining and petrochemical production is limited in the Philippines. Domestic oil refining capacity is approximately 290,000 barrels per day, of which the Company provides 180,000 barrels per day and Pilipinas Shell Petroleum Corporation ("**Shell**") provides 110,000 barrels per day, or 62% and 38% of total capacity, respectively, based on data from the DOE. The Company has historically maintained a

leading market share in the Philippine oil industry, with an overall market share of 28.6% in terms of total sales volume based on industry data from the DOE for the six months ended June 30, 2017. The chart below provides market share data for petroleum product sales in the Philippines for the periods indicated.

Philippine petroleum product sales market share



Source: DOE

Due to a shortage of domestic production, the Philippines has continued to rely on imports for a substantial amount of refined products, such as gasoline and diesel. Refined product imports during the first half of 2017 were at 48.6 mmbbls, an increase of 9.6% from the first half of 2016. The top imported product for the period was diesel oil which grew by 3.9% from last year's level. LPG import also rose by 24.7%. Likewise, kerosene/avturbo and gasoline increased by 21.3% and 7.1%, respectively. Fuel oil was down 9.5% compared to the first half of 2016.

Petroleum product exports from the Philippines have not been significant. During the first half of 2017 exports grew by 79.9% to 5.9 mmbbls. Vis-à-vis last year, condensate was the top exported product for the period, with a growth of 78.5%. Naphtha also rose by more than 200%. The largest components of the export mix for the first half of 2017 were condensate (24.7%), naphtha (15.5%), propylene (15.1%) and pygas (14.1%). Oil refiners accounted for 53.3% of the export mix.

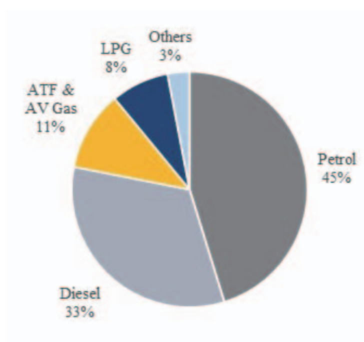
Malaysia Oil Market

Malaysia is among the largest producers of oil and gas in Southeast Asia. According to the latest BP Statistical Review of World Energy, at the end of 2016 Malaysia had proven oil reserves of 3.6 billion bbls and proven gas reserves of 41.3 trillion cubic feet. In 2016, Malaysia's production of oil was 705 kbpd (or 35.2 million tonnes), while natural gas production was 66.4 million tonnes of oil equivalent. The majority of Malaysia's crude oil comes from offshore fields, predominantly in the Malay basin. Malaysia's benchmark crude oil is the Tapis Blend, which is categorized as light and sweet.

The oil and gas and energy sectors are critical contributors to Malaysia's economy and has accounted for nearly 20% of the country's national GDP in recent years. Petroliam Nasional Berhad ("**Petronas**") is Malaysia's integrated national oil and gas company and is the exclusive holder of ownership rights to all oil and gas exploration and production projects and is responsible for all licensing procedures in Malaysia.

According to the National Energy Balance, the final consumption of petroleum products in Malaysia in 2015 totaled 28,699 thousand tons of oil equivalent ("**ktoe**"). Out of the final consumption in 2015, the largest components were petrol (44.6%), diesel (32.7%) and ATF & AV Gas (10.9%). In terms of regional breakdown, approximately 86% of petroleum product sales were in Peninsular Malaysia, with Sabah and Sarawak accounting for the remainder.

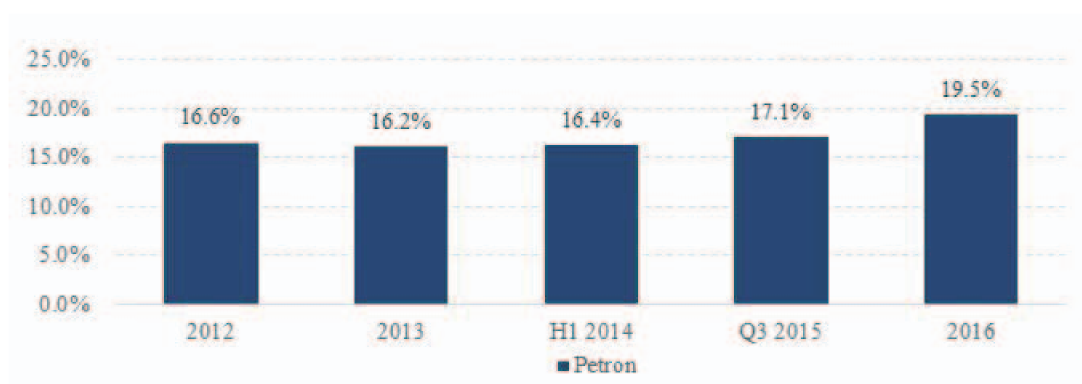
Final consumption of petroleum products (2015)



Source: *National Energy Balance 2015.*

In Malaysia, the oil retail industry is dominated by Petronas and Shell, followed by the Company. In the Malaysian retail segment, the Company has an estimated market share of approximately 20%. The following graph shows the historical retail market share for the Company's Malaysian operations (based on available information at that time period), which the Company acquired in March 2012.

Petron Malaysia/ExxonMobil Malaysia historical retail market share



Source: *Company.*

Over the last decade, Malaysia has been a net importer of gasoline, predominantly from Singapore, and makes up approximately 46% of all petroleum product imports. Conversely, Malaysia has been a net exporter of certain products, including diesel, where it exports about half of its diesel production.

Global Petrochemical Market

Petrochemical Products

Petrochemicals are chemical products derived from petroleum or other hydrocarbons. Primary petrochemicals include olefins and aromatics. Olefins are unsaturated molecules of carbon and hydrogen that appear as short chains of between two and four carbons in length, while aromatics contain a six carbon ring structure. Olefins and aromatics form the basis of a range of materials, including adhesives and solvents, and olefins form the basis for polymers, which are used, among other things, in plastics, fibers, resins and lubricants. Descriptions of certain petrochemicals are set forth below, of which propylene is an olefin and benzene, toluene and xylene are aromatics.

(1) Propylene is the feedstock for the production of polypropylene, which is used to manufacture items such as food packaging plastics, car bumpers, computer housings, appliance parts and fibers.

(2) Benzene is used to produce numerous compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

(3) Toluene is used as a solvent in paints, inks, adhesives and cleaning agents, and in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals and in the production of pharmaceuticals, dyes, and cosmetic nail products.

(4) Xylene is used to make polyester fibers, packaging materials, bottles and films.

Refining — Petrochemical Integration

Key factors affecting petrochemical companies include access to feedstock, the cost of feedstock, proximity to demand centers, technological advances and access to talent. In particular, the integration of petrochemical operations with refineries has been a way for companies to secure access to feedstock and also to capture more value from a refinery's product streams. This gives some flexibility in whether to maximize production of petroleum products or petrochemicals, depending on market requirements and the refinery's configuration. In addition, the integration of petrochemical facilities with refineries can provide economies of scale from the use of shared facilities and infrastructure, other overhead costs, as well as a sales channel for the products, which are used as feedstocks for petrochemical processes.

Petrochemical Outlook

The petrochemicals industry has historically been cyclical and has usually coincided with the business cycles of global and regional economies. Changes in supply and demand and resulting utilization levels are key factors that affect profitability. Periods of low industry profitability typically alternate with high profitability and result in periods of over- and under-investment. The long lead times for the construction of new facilities can result in capacity additions coinciding with, and subsequently exacerbating, weakening market conditions.

The largest market and most dominant region in the global petrochemicals market in 2016 has been observed as Asia, with around 66% market share. This is due to the presence of a robust manufacturing industry in China and South East Asia which have prolonged the usage of petrochemicals on a large scale. China itself is both the biggest producer and consumer of petrochemicals in the world, being responsible for 29% of all production and 28% of all consumption.

An ever-growing demand for plastics will support this trend for continuing growth in demand for petrochemical products in Asia. Despite capacity expansions in key markets such as China and India, countries in the region are generally expected to remain net importers of feedstock and petrochemical products.

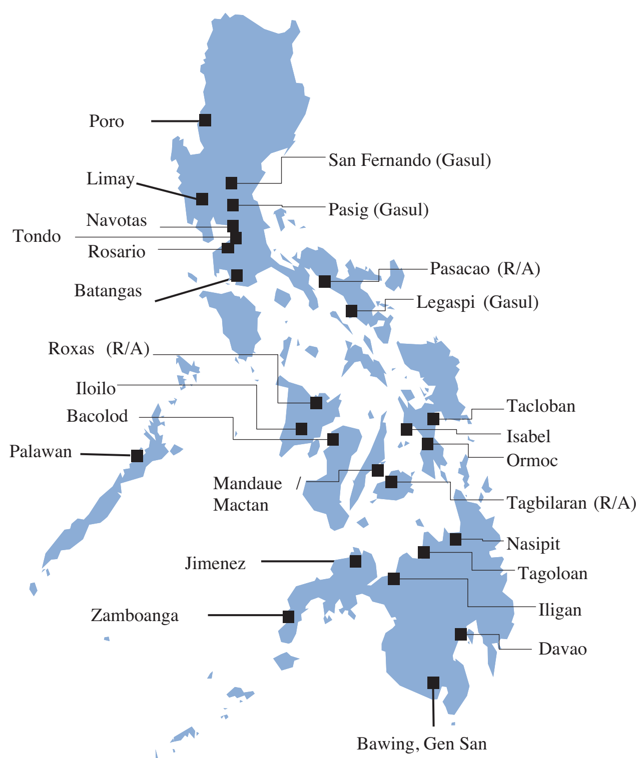
OVERVIEW

The Company is the largest integrated oil refining and marketing company in the Philippines. It refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. The Company had an overall market share of approximately 31.5%* of the Philippine oil market in the first half of 2017 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE.

The Company's IMS-certified Petron Bataan Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of RMP-2, a US$2 billion project for the Petron Bataan Refinery, enables the Company to produce more valuable White Products, increase the Company's production of petrochemicals, and made the Company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels.

From the Petron Bataan Refinery, the Company moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 11 terminals in Luzon, nine in the Visayas and seven in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, the Company supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The map below shows the geographic coverage of the Company's terminals in the Philippines as of September 30, 2017.



Note: R/A indicates that a rationalization agreement is in place in relation to the relevant terminal, which is a contract between the owner-operator of the terminal and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

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* Market share is derived from Company estimates based on Company information and data from the Philippine Department of Energy for the first half of 2017. Company estimates exclude all direct imports of end users.

Through its network of approximately 2,300 retail service stations in the Philippines as of September 30, 2017, the Company sells gasoline, diesel, kerosene, and auto-LPG (in some stations) to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company owns and operates a fuel additives blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, a global fuel additives supplier. Regional customers of Innospec and the Company's own requirements are served from the output of the Subic plant.

The Company diversified into petrochemicals and in 2000 added a mixed xylene recovery unit to the Petron Bataan Refinery and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in PAHL, which owns PPI through a wholly owned subsidiary RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, the Company acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of its petrochemical operations. As of July 25, 2016, the Company had increased its stake in PAHL to 100%.

The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. For the third quarter of 2017, the Company ranked third in the Malaysian retail market with a 19.7% market share based on Company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research (now known as "The Concilium Group Sdn Bhd"), a market research consultant appointed by Malaysian retail market participants to compile industry data. With this acquisition, the Company extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. As of September 30, 2017, the Company had 10 product terminals and a network of approximately 600 retail service stations in Malaysia.

The Company's products are primarily sold to customers in the Philippines and Malaysia. The Company also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. The Company's revenues from these export sales amounted to ₱27.9 billion, or 8.1% of total sales, in 2016, and ₱26.5 billion, or 8.5% of total sales, for the nine months ended September 30, 2017.

In 2014, 2015 and 2016, and the first nine months of 2017, the Company's sales were ₱482.5 billion, ₱360.2 billion, ₱343.8 billion and ₱313.5 billion, respectively, and net income was ₱3.0 billion, ₱6.3 billion, ₱10.8 billion and ₱11.8 billion, respectively.

STRENGTHS

The Company believes that its principal competitive strengths include the following:

Market leadership in the Philippine downstream oil sector.

With an overall market share of approximately 31.5% of the Philippine oil market in the first half of 2017 in terms of sales volume, based on Company estimates using its internal assumptions and calculations and industry data from the DOE, the Company believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies and other smaller players operating in the Philippines. In particular, the Company believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments.

In the Philippines, the Company owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines.

The Company has the most extensive distribution network for petroleum products in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes 31 terminals and airport installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the Company's leading position in the Philippines. Since 2011, the Company has focused on expanding its distribution network to accommodate the increasing demand across the Philippines, and will continue to invest in the expansion of its distribution network. The Company's strong participation in the different market segments such as retail, LPG and bulk industrial customer operations also plays a large role in its success in the Philippine downstream oil sector. As of September 30, 2017, the Company had approximately 2,300 service stations nationwide, an increase of approximately 79% from about 1,288 service stations in 2008, which the Company believes to be greater than any other market participant. The Company intends to grow this number to utilize the increased production from RMP-2. The Company believes it is the leader in the LPG segment with approximately 1,100 branch stores as of September 30, 2017. The Company's industrial sales cover approximately 1,000 direct industrial accounts as of September 30, 2017.

Established position in the Malaysian downstream oil sector.

The Company has acquired an established position in the Malaysian downstream oil sector through its acquisition of ExxonMobil's downstream oil business in Malaysia, which has a recognized health, safety and environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

JBC Energy ("**JBC**"), a research and consultancy service provider for the oil and energy sector, estimates that the Malaysian market will continue to grow annually by approximately 2.8% up to 2021. At its current market size of approximately 880,000 barrels per day, as estimated by JBC, it is more than double the size of the Philippine market. Based on Company estimates using its internal assumptions and calculations and industry data from Fahrenheit Research (now known as "The Concilium Group Sdn Bhd"), the Company ranked third in the Malaysian retail market with a 19.7% market share in the first nine months of 2017.

The Company's network of service stations and distribution infrastructure in Malaysia facilitate the capture of a growing share of the market. It includes approximately 600 service stations, 265 convenience stores, and ten product terminals as of September 30, 2017. Following the acquisition of ExxonMobil's downstream oil business in Malaysia in March 2012, the Company rebranded ExxonMobil Esso-branded service stations to the *Petron* brand to increase the awareness of the *Petron* brand in Malaysia. Concurrent with the rebranding, the Company launched a comprehensive refurbishment initiative with the goal of creating a convenient one-stop service experience for customers. This refurbishment initiative included upgrading the service stations with a modern look, brighter lights and more efficient display of products and services. The Company also has a presence in the aviation segment with a 20% ownership of a multi-product pipeline ("**MPP**") to Kuala Lumpur International Airport ("**KLIA**"). The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal ("**KVDT**"). In the second quarter of 2015, the Company completed a project linking the Port Dickson Refinery to the KVDT through the MPP to supply the central region more efficiently.

The retail and certain selected transportation sectors in Malaysia operate under a regulated market pursuant to the APM, which mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products." This regulated environment provides stability to the Company's Malaysian operations in such sectors.

Operating a highly complex refinery.

Over the years, the Company has developed and maintained a strong core base of petroleum products, and consistently made significant investments in upgrading its facilities and focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products.

RMP-2, a US$2 billion project completed in the fourth quarter of 2014, enables the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase the Company's production of petrochemical feedstock like propylene, benzene, toluene and xylene. The completion of RMP-2 has made the Company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved refinery utilization rate to about 86% and increased White Products to Black Products ratio to approximately 97% for the nine months ended September 30, 2017, compared to previous operating levels of approximately 57% utilization rate and White Products to Black Products ratio of approximately 80% for the year ended December 31, 2014.

Operations in markets with favorable industry dynamics.

The Company operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which the Company believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers. According to the International Monetary Fund (as of October 2017), the Philippine and Malaysian economies are expected to experience stable real GDP growth at annual rates of 6.7% and 4.8% respectively in the year 2018. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries. Both the Philippines and Malaysia are importers of finished petroleum products. The Company believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, giving it a significant competitive advantage over its competitors.

Differentiated service experience driving retail volumes.

The Company's network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, the Company's service station provides a one-stop service experience to travelers on the road, offering amenities such as *Treats* convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations. In Malaysia, the Company rebranded all ExxonMobil Esso-branded service stations to the *Petron* brand and refurbished the stations. As of September 30, 2017, 265 of the Company's network of approximately 600 service stations in Malaysia have convenience stores. The Company has also partnered with the Royal Malaysia Police to set up "Go-to Safety Points" at selected Petron stations in Malaysia.

The Company also offers loyalty programs that complement its retail business. The Company continues to upgrade existing loyalty programs and offer new and diverse programs to cater to customers' unique needs. Some of the benefits of the program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage (Philippines). As of September 30, 2017, approximately 5 million Petron Value Cards (including Petron Super Driver Cards) had been issued in the Philippines and approximately 5.9 million Petron Miles Privilege Cards had been issued in Malaysia.

Experienced management team and employees and strong principal shareholder in San Miguel Corporation.

The Company has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, the Company has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Petron Bataan Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. The Company is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees in the Company is approximately 9 years for the Philippines and 10 years for Malaysia.

SMC, directly and indirectly, holds an effective 68.26% of the Company's outstanding common equity. See "Ownership and Corporate Structure." SMC is amongst the largest and most diversified Philippine conglomerates, generating about 4.7% of the country's GDP in 2016. Its broad range of businesses includes beverages, food, packaging, properties, fuel and oil, energy, infrastructure, and investment in banking.

The Company believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. The Company also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

STRATEGIES

The Company's principal strategies are set out below:

Maximize production of high margin refined petroleum products and petrochemicals.

Over the years, the Company has made significant investments in upgrading its facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene. The RMP-2 program, which exemplifies this strategic focus, increases revenues, reduces costs, and places the Petron Bataan Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region, improving its competitiveness. Going forward, the Company expects to continue investing in upgrading its production capability.

In the medium term, the Company will assess the viability of further expanding the Petron Bataan Refinery's value generation through upgrading its petrochemicals facilities to increase production of petrochemicals benzene, toluene and mixed xylene, and enable production of higher value para-xylenes.

Further increase market share in the downstream oil markets in the Philippines and Malaysia.

The Company intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue and margin potential.

The Company believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, the Company will embark on: (i) increasing its retail outlets for fuels and LPG to improve market

penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide "value conscious" customers with a one-stop full service experience; and (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support the Company's growing retail business and continuing service station network expansion.

In Malaysia, the Company intends to increase its market share by expanding its existing Malaysian retail network of approximately 600 retail service stations. The Company plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians.

In addition, the Company seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers, by providing differentiated service offerings in its retail service stations and by promoting enhanced loyalty programs in both countries.

Continue investments to increase operational efficiency and profitability and to increase market reach.

The Company has undertaken a number of strategic projects such as the RMP-2 aimed at improving operational efficiency and profitability, and increasing market reach through the expansion of the Company's service station network.

The Company also intends to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities through a range of initiatives including: (i) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Petron Bataan Refinery; (iii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the terminal network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. The Company also expects to continue utilizing operational synergies by leveraging on SMC's network, products and services.

Pursue selective synergistic acquisitions.

In addition to organic growth, the Company will continue to consider and evaluate selective opportunities to expand both within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business. For example, in March 2010, the Company acquired a 40% stake in PAHL, which owned PPI through a wholly owned subsidiary RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, the Company acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of the petrochemical operations of the Company. As of July 25, 2016, the Company had increased its stake in PAHL to 100%. In addition, on March 30, 2012, the Company completed its acquisition of ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

On December 23, 2016, the Company acquired from SMC Powergen Inc. a 140MW cogeneration power plant located in the Petron Bataan Refinery, which supplies the power and steam requirements of the Petron Bataan Refinery. The acquisition is expected to lower steam and power costs.

CORPORATE HISTORY AND MILESTONES

The Company was incorporated in 1966 under the name "Esso Philippines Inc." and was later renamed "Petrophil Corporation" ("**Petrophil**"). Between 1987 and 1988, Petrophil, Bataan Refining Corporation and Petron TBA Corporation were merged into one entity, and the surviving corporation was renamed "Petron Corporation." In 1994, the Philippine National Oil Company ("**PNOC**") sold 40% of its shares in the Company to Aramco Overseas Company B.V. ("**AOC**"), a wholly owned subsidiary of Saudi Aramco, and 20% to the public in an initial public offering. The Company's common shares were listed on the PSE in 1994. In 2008, AOC sold its shares in the Company to the Ashmore group, and, following a series of share transfers, at the end of 2008, the Company was majority-owned by the Ashmore group through its subsidiaries, specifically, 50.1% by SEA Refinery Corporation ("**SEA Refinery**") and 40.47% by SEA Refinery Holdings B.V. ("**SEA BV**").

In 2008, SMC and SEA BV entered into an option agreement granting SMC the option to buy 100% of SEA BV's ownership interest in SEA Refinery. In April 2010, SMC exercised its option to purchase a 40% equity interest in SEA Refinery. SMC subsequently acquired an additional 1.97% of the Company's common shares pursuant to a tender offer.

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company.

In August 2010, SMC purchased approximately 16% of the outstanding common shares in the Company from SEA BV, and in October 2010, SMC acquired from the public 0.006% of the Company's outstanding common shares. SMC subsequently exercised its option to purchase the remaining 60% of SEA Refinery from SEA BV in December 2010, increasing its effective ownership of the outstanding and issued common shares of the Company to 68.26%.

PCERP sold 7.4%, 5.02% and 4.05% of the Company's outstanding common shares to the public in January 2012, March 2014, and August 2014, respectively. In addition, PCERP sold 2.08% of the Company's outstanding common shares to Credit Suisse (Singapore) Limited in December 2012.

In March 2012, the Company acquired 100% of the voting shares in each of ExxonMobil Malaysia Sdn. Bhd. and ExxonMobil Borneo Sdn. Bhd. from Mobil International Petroleum Corporation and ExxonMobil International Holdings Inc., respectively. The acquired companies were subsequently renamed "Petron Fuel International Sdn. Bhd." and "Petron Oil (M) Sdn. Bhd.," respectively.

Also in March 2012, the Company acquired 65% of the voting shares of Esso Malaysia Berhad ("**Esso Malaysia**") from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of Esso Malaysia in May 2012 pursuant to a mandatory takeover offer. In July 2012, Esso Malaysia was renamed "Petron Malaysia Refining & Marketing Berhad."

On September 13, 2013, the SEC approved the extension of the 50-year corporate term of the Company to 2066.

In December 2014, PCERP re-acquired 2.08% of the Company's ordinary common shares from Credit Suisse (Singapore) Limited through the PSE, increasing its ownership of the outstanding and issued common shares of the Company to 7.80%.

Certain key dates and milestones for the Company's business are set forth below.

1957 . . . . Standard Vacuum Oil Company was granted a concession to build and operate the Petron Bataan Refinery in Limay, Bataan owned by Bataan Refining Corporation.

1961 . . . . The Petron Bataan Refinery commenced commercial operations with a capacity of 25,000 barrels per day.

1998 . . . . The lubricant oil blending plant in Pandacan, Manila was modernized, replacing facilities that were built in 1968.

2000 . . . . The mixed xylene plant in the Petron Bataan Refinery commenced operations, marking the Company's entry into the petrochemicals market.

2008 . . . . The petrofluidized catalytic cracking ("**PetroFCC**") unit in the Petron Bataan Refinery commenced operations enabling the Company to convert fuel oil into higher value products such as LPG, gasoline and diesel.

The propylene recovery unit in the Petron Bataan Refinery commenced operations enabling the recovery of propylene from the LPG produced by the PetroFCC unit.

The fuel additives blending plant in the Subic Freeport Zone commenced operations, making the Company the exclusive blender of Innospec's additives in the Asia Pacific region.

2009 . . . . Debottlenecking of the Company's continuous catalyst regeneration reformer unit and its mixed xylene plant was completed, enabling the recovery of more mixed xylene.

The benzene-toluene extraction unit in the Petron Bataan Refinery commenced operations, enabling the Company to produce benzene and toluene.

2010 . . . . The Company acquired a 40% stake in PAHL, the ultimate parent company of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. PPI operated a polypropylene plant located in Mariveles, Bataan in the Philippines from 2011 until its polypropylene business was acquired by the Company on July 1, 2014.

The Company acquired a 35% stake in MNHPI, forming a joint venture between the Company and Harbour Centre Port Terminal, Inc.

In the fourth quarter of 2010, the Company commenced construction of RMP-2, a US$2 billion project designed to enable the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, increase the Company's production of petrochemicals, and produce Euro-IV standard fuels.

2011 . . . . PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan.

2012 . . . . The Company acquired ExxonMobil's downstream oil business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

The Company converted certain loans that it had extended to PAHL to additional equity, increasing its stake in PAHL to 45.9%.

2013 . . . . The Company sold to SMC Powergen Inc. the cogeneration power plant located in the Petron Bataan Refinery.

2014 . . . . The Company acquired the polypropylene business of PPI and took over the operations of the polypropylene plant, which is leased from PPI's parent, RIHL.

The Company completed RMP-2 in the fourth quarter of 2014.

2015 . . . . The Company completed commissioning of RMP-2 in the fourth quarter of 2015.

The Company increased its stake in PAHL to 47.25%.

2016 . . . . The Company declared commercial operations of RMP-2 in January 2016.

The Company took over the retail operations of PMC.

The Company increased its stake in PAHL to 100%.

The Company acquired from SMC Powergen Inc. the cogeneration power plant.

2017 . . . . In October 2017, the Company completed the sale of its 10,449,000 shares in MNHPI (equal to 34.83% of MNHPI's outstanding shares) to International Container Terminal Services, Inc.

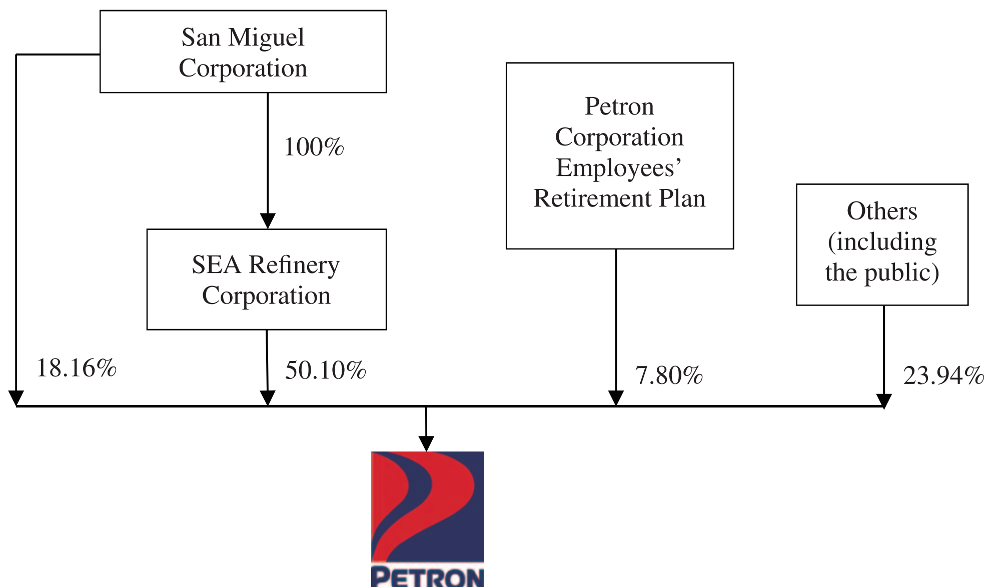
The table below sets forth the Petron Bataan Refinery's historical refining capacity as of the date of this Offering Circular.

Year	Capacity (barrels per day)
1961	25,000
1968	45,000
1972	117,000
1977	124,000
1978	149,000
1989	155,000
1995	165,000
1998	180,000

As of the date of this Offering Circular, the Port Dickson Refinery has a refining capacity of 88,000 barrels per day.

OWNERSHIP AND CORPORATE STRUCTURE

The Company is a publicly listed company jointly owned by SEA Refinery, PCERP, SMC and others, including the general public. The chart below sets forth the ownership structure of the Company's common shares as of September 30, 2017.



SEA Refinery is a Philippine company wholly owned by SMC.

SMC is Southeast Asia's largest publicly listed food, beverage and packaging company. Its broad range of businesses includes properties, fuel and oil, energy, infrastructure and investment in banking.

PCERP is a tax qualified and fully funded defined pension plan covering all permanent, regular and full-time employees of the Company. It is administered by its board of trustees. Certain members of the Company's management are also trustees of PCERP.

SUBSIDIARIES, ASSOCIATES AND HOLDING COMPANIES

The table below sets forth the Company's equity interest in its primary operating subsidiaries, associates and holding companies as of the date of this Offering Circular, as well as their principal businesses and places of incorporation. The Company has two insurance subsidiaries, Petrogen and Ovincor, which were established to support the insurance requirements of the Company and its allied business partners, including contractors, suppliers, haulers and dealers. The Company also has marketing and trading subsidiaries and interests in realty companies to support its core business.

Name of Company	Place (Date) of Incorporation/ Form of Organization	Company's Equity Interest	Principal Business
Overseas Ventures Insurance Corporation Ltd. ("**Ovincor**")	Bermuda (1995)/ exempt company	100%	Reinsurance
Petrogen Insurance Corporation ("**Petrogen**")	Philippines (1996)/ company	100%	Insurance
Petron Freeport Corporation ("**PFC**")	Philippines (2003)/ company	100%	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores, and the manufacture of fuel additives
Petron Singapore Trading Pte. Ltd. ("**PSTPL**")	Singapore (2010)/ company	100%	Procurement of crude oil, trading of petroleum and petrochemical products, vessel chartering and risk management
Petron Oil & Gas International Sdn Bhd ("**POGI**")	Malaysia (2011)/ company	100% indirect interest	Investment holding
Petron Malaysia Refining & Marketing Bhd ("**PMRMB**")	Malaysia (1960)/ company	73.4% indirect interest (the other 26.6% is owned by the public)	Manufacturing and marketing of petroleum products in Peninsular Malaysia
Petron Fuel International Sdn. Bhd. ("**PFISB**")	Malaysia (1961)/ company	100% indirect interest	Marketing of petroleum products in Peninsular Malaysia
Petron Oil (M) Sdn. Bhd. ("**POMSB**")	Malaysia (1969)/ company	100% indirect interest	Marketing of petroleum products in East Malaysia
New Ventures Realty Corporation ("**NVRC**")	Philippines (1995)/ company	40% (the other 60% is owned by PCERP)	Purchase and sale of properties suitable for use as service station sites, bulk plants or sales offices

PRODUCTS

Core Products

The Company's core products are categorized into fuels, lubricants and greases, and petrochemicals.

Fuels

The list below sets forth each of the Company's fuels products, as well as a description of each product.

The Philippines

PETRON GASUL is a premium LPG product. It is used as fuel for cooking, lighting and industrial applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders and in bulk.

FIESTA GAS is an economy LPG product. It is used as fuel for cooking, lighting and industrial applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders.

PETRON XTEND AUTOGAS is an automotive LPG product used as fuel for LPG-fueled engines.

PETRON GAAS is water-white kerosene. It is used as fuel for stoves, lamps and other domestic uses.

PETRON BLAZE 100 Euro 6 is a 100 octane and Euro-6 level premium plus gasoline. It meets European fuel quality standards for Euro-6 technology vehicles. It also meets Euro 6b emission standards.

PETRON XCS is a 95 octane premium gasoline that contains a complete combustion additive system that delivers excellent engine response, enhanced power and acceleration, and improved fuel economy. It meets and exceeds Euro IV-PH standard for premium grade gasoline.

PETRON XTRA ADVANCE is a 91 octane regular gasoline that was formulated to provide better engine protection, corrosion control, better power, and improved fuel economy.

PETRON TURBO DIESEL is an advanced diesel designed for high performance diesel engines. It is designed to provide excellent engine protection, improved fuel economy, and maximum power for today's modern diesel engines.

PETRON DIESEL MAX is a regular diesel fuel formulated with robust multi-functional additive system for optimum engine protection, better power and improved fuel economy.

PETRON AVIATION GASOLINE is a low-lead, high-octane aviation gasoline for aircraft with reciprocating engines.

PETRON JET A-1 is a highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.

Malaysia

PETRON BLAZE 100 is Malaysia's first 100 octane premium grade gasoline. It meets the Euro 4M and SIRIM MS 118-3:2011 standards. It provides optimum performance in terms of power, acceleration, and combustion efficiency. It has less sulfur and benzene content, making it a very environmentally-friendly product.

PETRON BLAZE 97 is a 97 octane high-performance premium gasoline. It contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in excellent engine cleaning action, enhanced power and acceleration, and improved fuel economy. It meets Euro 4M specifications.

PETRON BLAZE 95 is a 95 octane premium gasoline. It contains a high performance detergent additive, friction modifier, and unique gas saving combustion improver that provides better engine protection, optimum power and acceleration, and improved fuel economy.

PETRON TURBO DIESEL EURO 5 is a premium plus diesel fuel with 7% palm oil methyl ester. It is formulated with an advanced additive technology to provide excellent power, improved fuel economy, and reduced exhaust emissions. It also provides better ignition quality and smoother engine run. It is specially designed to meet European fuel quality standards.

PETRON DIESEL MAX is a premium biodiesel mix of 7% palm oil methyl ester and diesel which comply with the requirement under the Malaysia Biofuel Industry Act of 2007. It contains a robust multi-functional detergent additive and a smoke reducing agent to provide improved fuel economy, clean engine, and reduced exhaust emissions.

PETRON DIESEL is a premium diesel fuel with robust and multifunctional additives that provide improved fuel economy and reduced emissions. It is designed to maintain and improve fuel injection system cleanliness through unsurpassed detergency characteristics. It meets Euro 2M and SIRIM MS 123-1:2014 specifications.

PETRON GASUL is a premium LPG product. It is used as fuel for cooking, lighting and industrial applications and is sold in 12-kg, 14-kg and 50-kg cylinders and in bulk.

PETRON KEROSENE is refined kerosene with clean and efficient burning qualities.

PETRON JET A-1 is a highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines.

LOW SULFUR WAXY RESIDUE is a low-sulfur bottom/residue from refinery processing that is used as feedstock for chemical plants or as fuel for industrial boilers or heaters.

Lubricants and Greases

Automotive oil and lubricant products include the Company's extensive line of automotive oil and lubricants for different types of vehicle engines and road conditions.

Industrial oil and lubricant products include the Company's broad range of oil and lubricants designed for extreme temperatures and operating conditions for various industrial uses.

Marine oil and lubricant products include the Company's broad range of oil designed for lubrication of various types of diesel engines used in the maritime industry.

Greases include the Company's grease products used for the protection of equipment and the reduction of wear on gears and other components of vehicle and industrial engines.

Asphalts include the Company's asphalt products used for road paving, sealing applications, undercoating, waterproofing and rust proofing.

Special products include the Company's products designed for special applications, such as process oils, thermal oils, protective coatings, steel case moulding, tire manufacturing, processing of natural fibers and other non-lubricating applications.

Aftermarket specialties include products such as brake fluid coolants, diesel additives, engine oil and gasoline additives, sprayable grease, car shampoos and multi-purpose sprays.

Petrochemicals

Xylene is used to make polyester fibres, packaging materials, bottles and films.

Propylene is the raw material used for the production of polypropylene.

Polypropylene is used to manufacture food packaging plastics, car bumpers, computer housings, appliance parts and fibres.

Benzene is an aromatic hydrocarbon used to produce numerous intermediate petrochemical compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

Toluene is used as a solvent in paints, inks, adhesives, and cleaning agents, as well as in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals, and in the production of pharmaceuticals, dyes and cosmetic nail products.

Other Refinery Products

Naphtha is widely used as a motor gasoline component. It is also used as feedstock in steam crackers to produce olefins. Like some petrochemicals, it is also used as solvent for cleaning applications and also as a diluent in the mining industry.

Molten sulfur is a by-product of the Limay Refinery. It is used as precursor to different chemical compounds with a wide variety of applications from sulfuric acid to fertilizers and pharmaceutical drugs.

Petcoke is used in power generation and manufacturing processes as an alternative feedstock to coal.

SCOPE OF BUSINESS

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including LPG, gasoline, diesel, jet fuel, kerosene, solvents, asphalts, and petrochemical feedstocks such as mixed xylene, propylene and toluene.

The major markets in the petroleum industry are Retail, Industrial, LPG and Lube Trades. Petron sells its products to both industrial end-users and through a nationwide network of service stations, LPG dealerships, sales centers and other retail outlets. It also supplies jet fuel at key airports to international and domestic carriers.

In line with the Company's efforts to increase its presence in the regional market, it exports various petroleum and non-fuel products to Asia-Pacific countries such as Cambodia, South Korea, Taiwan, China, Brunei, Singapore, Malaysia, Hong Kong, Thailand and Indonesia. Exports, which generate dollar inflows for the Company, provide a natural hedge against losses which may arise from fluctuations in the foreign exchange rate.

Petron also operates a lube oil blending plant at its Pandacan terminal. Its fuel additives blending plant in Subic Bay Freeport supplies the Company's requirements and serves as Asian supply hub of Innospec.

PRODUCTION

Production Facilities

The Philippines

In the Philippines, the Company owns a petroleum refinery complex located in Limay, Bataan. The Petron Bataan Refinery has a crude oil distillation capacity of 180,000 barrels per day. Its facilities include three crude oil distillation units, two vacuum pipestill units, a delayed coker unit, two catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three naphtha hydro-treaters, two kerosene merox treaters, three gas oil hydro-treater units, a coker gas oil hydro-treater, a polynaphtha oligomerization unit, four LPG treaters, two selective hydro-processing units, an isomerization unit, benzene, toluene, and mixed xylene recovery units, two propylene recovery units, four sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, three nitrogen plants, two waste water treatment facilities, four sour water facilities, a desalination facility, eight steam generators, five turbo generators, four cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude oil carriers, or VLCCs.

The Petron Bataan Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel and diesel. In 2000, the Petron Bataan Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant designed to produce 232,000 tons per year of mixed xylene. The Petron Bataan Refinery started producing propylene in 2008 with the commissioning of its first propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene. Also in 2008, the Petron Bataan Refinery started the construction of the benzene-toluene extraction unit to further expand its capability to produce petrochemical feedstock. The benzene-toluene extraction unit, which became operational in May 2009, is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Petron Bataan Refinery's propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually. In July 2014, the Company acquired the polypropylene business of PPI to enhance efficiency. As a result of the acquisition, the operation of the polypropylene plant was integrated into the Petron Bataan Refinery's propylene production operation which expanded in 2015 with the commissioning of the second propylene recovery unit, increasing propylene production capacity to 415,000 tons per year.

The Company completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 metric tonnes per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. The Company is Innospec's exclusive blender in the Asia-Pacific region.

Malaysia

In Malaysia, the Company owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day. Its facilities include a crude oil distillation unit, a naphtha hydro-treating unit with a processing capacity of 26,000 barrels per day, two semi-regeneration reformer units with a combined processing capacity of 19,000 barrels per day and a kerosene hydro-treating unit with a processing capacity of 12,000 barrels per day. The Port Dickson Refinery has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, six crude oil storage tanks with a total capacity of approximately 1.1 million barrels, 21 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels. The Port Dickson

Refinery produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. The Company exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil for the Port Dickson Refinery is received by means of a single buoy mooring ("**SBM**") and crude pipeline facilities that are jointly owned with Hengyuan Refining Company Berhad ("**HRC**") (formerly known as Shell Refining Company (Federation of Malaya) Berhad) ("**SRC (FOM)**") through an unincorporated joint venture. Under the joint venture, the Company shares all SBM operating and capital costs and also pays a levy of one-third of the overhead and administrative charges incurred by SRC (FOM) in connection with the operation of the SBM.

The Refining Process and Quality Improvement Initiatives

The Petron Bataan Refinery

The Petron Bataan Refinery has implemented various programs and initiatives to achieve key performance indices on reliability, efficiency and safety. These programs include the Reliability Availability Maintenance ("**RAM**") program and the Profitability Improvement Program ("**PIP**"), which were developed and implemented in coordination with KBC Market Services, an independent consulting group. The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five years from the previous two years. The PIP likewise significantly improved White Products recovery, particularly diesel and LPG.

The Petron Bataan Refinery has adopted a continuous improvement culture. The Petron Bataan Refinery's Continuous Improvement Program was one of the finalists for the 2008 Peoples' Program of the Year award sponsored by the People Management Association of the Philippines.

The Petron Bataan Refinery achieved its Integrated Management System ("**IMS**") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body, in 2009. The IMS is an integration of three management systems: (1) Quality ISO 9001:2008; (2) Environment ISO 14001:2004; and (3) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the Petron Bataan Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; hazard and injury free working environment; and environmentally friendly operations.

The Port Dickson Refinery

The Port Dickson Refinery utilizes Quality Management Systems ("**QMS**") in support of its operations. Embedded within the QMS are the Safety, Health and Environmental Management System ("**SMS**"), Control Management System ("**CMS**"), and Product Quality Management System ("**PQMS**"). In addition, the Port Dickson Refinery also practices the Loss Prevention System ("**LPS**"), the Reliability Management System ("**RMS**") and additional plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted the QMS in 2016 to align all existing processes under one management system. SMS provides a structured approach to the management of risk related to safety, security, health and the environment ("**SSHE**") and to comply with local SSHE regulations and laws. CMS provides a process for ensuring Corporate Policies and In-Line Controls are implemented and effectively sustained over time. PQMS provides a work process to ensure high-quality product delivery. Adopting QMS was also part of the initiative to obtain ISO 9001:2015 certification. The Port Dickson Refinery was awarded with the certification on December 16, 2016.

As of September 30, 2017, the Port Dickson Refinery had accumulated more than 15 consecutive years without any lost-time injury for employees or contractors and had received numerous awards from the Malaysian Society for Occupational Safety and Health ("**MSOSH**") for excellent Occupational Safety and Health performance, as well as the Prime Minister Hibiscus Award for Exceptional Achievement in environmental performance.

To increase plant reliability, the Port Dickson Refinery adopted the RMS, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution.

The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, flaring, oil loss and energy conservation through the use of advanced process computer control and an integrated plant information system.

Raw Materials

Philippine Operations

The main raw material used in the Petron Bataan Refinery's production process is crude oil. The Company acquires crude oil for the Petron Bataan Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. The Company has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco's standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis and secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either the Company or Saudi Aramco elects to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of September 30, 2017, neither the Company nor Saudi Aramco had terminated the contract.

The Company also has a term contract with KPC to purchase Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of September 30, 2017, neither the Company nor KPC had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.

The Petron Bataan Refinery is capable of processing various types of crude oil. The Company's crude oil optimization strategy includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Petron Bataan Refinery had been processing predominantly prior to RMP-2 commissioning, to provide additional value to the Company. The completion of the RMP-2 has given the Petron Bataan Refinery greater flexibility to use heavier, more sour alternative crude.

The Company entered into a contract for the 2017 term supply of group I base oils (SN500, SN150 and BS150) with Shell International Eastern Trading Co. in December 2016. This contract is renewable annually, subject to the Company's option, and pricing is calculated using a formula based on an international standard price benchmark for base oils. Group I base oils are the Company's main feedstock for the production of automotive, industrial and marine lubricants.

The Company has an exclusive offtake agreement with Philippine-based San Carlos Bioenergy, Inc. pursuant to a ten-year supply contract expiring in May 2019 based on a formula price. The balance of the Company's ethanol requirements is sourced from other local ethanol producers based on the local monthly allocation given by the DOE to the oil players, and the remainder, on imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all gasoline, with the exception of Premium Plus grade, sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

The Company also imports aviation gas, asphalt and some gasoline blending components. These imports are necessary as the Company does not produce aviation gas and asphalt. The Company ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Imports of LPG, diesel, gasoline and jet fuel may also be necessary during maintenance of the Petron Bataan Refinery. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi Aramco contract prices ("**Saudi CP**") for LPG.

Malaysian Operations

The main raw materials used in the Port Dickson Refinery's production process are crude oil and condensate. The Company acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. The Company has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other short-term supply contracts and spot crude purchases. Currently, 56% of the crude and condensate volume processed in the Port Dickson Refinery is sourced from EMEPMI, while the balance of 44% is sourced from spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks.

The Port Dickson Refinery is designed to process sweet crude oil. The Company's crude oil optimization strategy includes diversification in processing different types of local as well as regional sweet crude oil.

The Company buys POME from Malaysian government-approved local suppliers for its biodiesel mix. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. The Company produces a biodiesel mix initially comprising 5% POME and 95% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7% POME and 93% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015.

The Company also imports LPG, diesel, gasoline, jet fuel and some gasoline blending components into Malaysia since the refinery production is not enough to meet the demand. These imports are purchased through term purchase contracts and in the spot market. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline, jet fuel and some gasoline blending components, or Saudi CP for LPG.

Utilities

The principal utilities required for the Company's production process are water, electricity and steam.

Water

Deep wells provide the Petron Bataan Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

Electricity and Steam

The Petron Bataan Refinery's electricity and steam requirements are sourced from the Petron Bataan Refinery's existing turbo and steam generators as well as from its cogeneration power plant. The cogeneration power plant was acquired by the Company in December 2016 from SMC Powergen Inc., a subsidiary of SMC and an affiliate of the Company.

The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

SALES AND MARKETING

The Philippines

In the Philippines, the Company is the largest integrated oil refining and marketing company. The Company had an overall market share of 31.5% of the Philippine oil market in the first half of 2017 in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE.

Retail Service Stations

The Company had approximately 2,300 retail service stations in the Philippines as of September 30, 2017, representing approximately 28% of the country's total service station count of approximately 8,100, according to the Company's estimates. Most of these stations are located in Luzon, where demand is heaviest. The Company employs two types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("**CODO**") and dealer-owned-dealer-operated service stations ("**DODO**"). For CODOs, the Company buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers buy or lease the land, build service station structures according to Company specifications, lease the service station equipment from the Company, and operate the DODOs. As of September 30, 2017, approximately 30% of the Company's retail service stations in the Philippines were CODOs, and approximately 70% were DODOs.

In 2009, the Company launched its pioneering Petron *Bulilit* Stations, which are small service stations that provide the flexibility to establish a presence even in remote rural areas and make the Company's products and services accessible to more Filipinos.

To improve traffic in the Company's service stations and increase potential revenues of the Company's non-fuel business, the Company established *Treats* convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations nationwide. The *Treats* convenience stores were rebranded under the brand name *San Mig Food Avenue* in 2011 pursuant to an agreement with San Miguel Foods Inc. The convenience stores are operated by dealers through a franchise obtained from San Miguel Foods, Inc. In 2014, the Company opened two bakeshops in Manila under the brand name "*Treats,*" with permission from San Miguel Foods, Inc. for the use of the brand name. The *Treats* bakeshops are operated by PMC. As of September 30, 2017, there are about 16 *Treats* outlets nationwide.

The Company continues to install the point of sale ("**POS**") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of September 30, 2017, the Company had installed POS terminals in 1,184 retail service stations in the Philippines.

Industrial Sales

The Company believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. The Company had more than 1,000 direct industrial account customers as of September 30, 2017.

LPG

The Company is the leading market participant in the Philippine LPG market in terms of market share. The Company has set up approximately 1,100 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of September 30, 2017. The Company commissioned 11 mini-refilling plants in the Philippines as of September 30, 2017 to broaden the reach of the Company's LPG products and make them accessible to more Filipinos.

Lubricants, Specialties and Petrochemicals

To augment lubricants and greases sales, the Company has a network of approximately 26 Car Care Centers, 12 Lube Centers, and 12 Motorcycle Centers throughout the Philippines as of September 30, 2017. The Company capitalizes on its expanded LPG-outlet network by utilizing its LPG branch stores as outlets for the Company's lubricants and specialty products. The Company has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. The Company also provides technical services to Innospec's customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

The Company exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

Loyalty Programs

The Company actively pursues initiatives to improve customer service and promote customer loyalty. In 2004, the Company launched the Petron Fleet Card, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services and provides 24-hour free towing and roadside assistance to cardholders. As of September 30, 2017, approximately 176,000 Petron Fleet Cards had been issued. In 2008, the Company launched Petron e-Fuel Card as a promotional item. To maximize patronage of its service stations and related businesses, the Company launched a loyalty program in October 2011 through its Petron Value Card, which offers 24-hour free towing and roadside assistance, rewards points for every purchase and complimentary annual personal accident insurance coverage. In the fourth quarter of 2014, the Company introduced the Petron Super Driver Card, a variant of the Petron Value Card, to the public utility vehicle sector, specifically targeting the taxi and tricycle markets. As of September 30, 2017, the Company has issued approximately 5.0 million Petron Value Cards (including Petron Super Driver Cards).

Malaysia

The Company's fuels marketing business in Malaysia is divided into retail business and commercial sales.

Retail Service Stations

The retail business markets fuel and other retail products through a dealer network comprising approximately 600 retail service stations located throughout Peninsular and East Malaysia. In Malaysia, the Company uses the CODO and DODO operating structures for its retail service stations. As of September 30, 2017, of the Company's approximately 600 retail service stations, approximately 67% were CODOs and approximately 33% were DODOs. 265 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

To further enhance the customer service experience in Malaysia, the Company launched the Fuel Happy campaign in March 2015 with many marketing activities and events organized to reward and

enchant the customers. In January 2016, the Company pioneered the country's first premium fuel with the roll out of the new Blaze 100 to eight pilot sites in Klang Valley. As of September 30, 2017, Blaze 100 is available in about 70 stations, mainly located in Klang Valley and the southern city, Johor Bahru.

Commercial Sales

The Company's commercial sales are divided into three segments: industrial and wholesale fuels, LPG and lubricants and specialties.

Industrial and Wholesale Fuels

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. The Company's sales to unbranded mini-stations represented approximately 71.6% of such sales in Malaysia by volume for the first nine months of 2017, based on the Company's estimates and information and data from Fahrenheit Research (now known as "The Concilium Group Sdn Bhd"). Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. The Company sells diesel to such power plants on an ad-hoc basis at spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are subject to a quota system in Malaysia, the Company's sales to these transportation sectors are subject to volume limits. Sales in excess of the approved quotas are not entitled to subsidies. Accordingly, when the government-mandated prices are lower than the fuel products' built-up costs per the APM, the Company has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas.

The Malaysian wholesale segment consists of sales, primarily of diesel, to Company-appointed distributors, which subsequently sell the Company's products to industrial customers. As of September 30, 2017, the Company had about 228 active distributors. See "Risk Factors — Risks Relating to the Company's Business and Operations — The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products."

In Malaysia's aviation sector, the Company is one of the three major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System Sdn Bhd, the operator of the KLIA's storage and hydrant facility.

LPG

The Company markets LPG in 12-kg, 14-kg and 50-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers are owned by the Company and distribute bottled LPG to dealers. Stockists are dealer-owned and distribute cylinders to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Prices of 12-kg and 14-kg cylinders are regulated under the APM.

The Company also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 50-kg and bulk LPG are not covered by the APM. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011" for a more detailed discussion of the APM and the Malaysian quota system.

Lubricants and Specialties

The Company established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia to various industry segments, namely, car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. The Company's wide range of automotive lubricants is sold through the Company's extensive network of service stations in Malaysia.

The Company exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

Loyalty Programs

Since acquiring its Malaysian operations in March 2012, the Company has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. The Company rebranded its loyalty card programs to Petron Miles Privilege Cards in April 2014 as part of its rebranding program in Malaysia. As of September 30, 2017, approximately 5.9 million Petron Miles Privilege Cards had been issued in Malaysia.

Additional Information on Business Segments — Consolidated

The following table presents additional information on the petroleum business segment of the Company as at and for the years ended December 31, 2016, 2015 and 2014:

	Reseller	Lube	Gasul	Industrial	Others	Total
	(in millions)					
2016						
Revenue	₱161,415	₱4,445	₱17,922	₱83,650	₱74,547	₱341,979
Property, plant and equipment	18,557	110	384	210	152,069	171,330
Capital expenditures	3,214	1	89	110	21,920	25,334
2015						
Revenue	₱169,179	₱4,052	₱18,119	₱81,587	₱84,971	₱357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585
2014						
Revenue	₱241,118	₱3,677	₱25,157	₱138,455	₱71,346	₱479,753
Property, plant and equipment	22,167	150	393	161	125,385	148,256
Capital expenditures	2,256	—	41	98	102,333	104,728

Percentage of Sales or Revenues by Foreign Sales

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2014 to 2016:

	Domestic	Exports/ International	Total
2016 (in millions)	₱205,411	₱138,429	₱343,840
	60.0%	40.0%	100.0%
2015 (in millions)	₱213,634	₱146,544	₱360,178
	59.0%	41.0%	100.0%
2014 (in millions)	₱276,731	₱205,804	₱482,535
	57.0%	43.0%	100.0%

DISTRIBUTION

The Philippines

The Company's main storage facility in the Philippines was formerly located in Pandacan, Manila. The reclassification by local authorities of the area occupied by the Pandacan terminal prohibited the continued operation of the Company's facility in Pandacan as a petroleum storage facility and necessitated relocation to other alternative sites in Luzon. The Company ceased its petroleum product storage operations in Pandacan in January 2015.

To serve its domestic markets, the Company maintains 31 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 11 terminals in Luzon, nine in the Visayas and seven in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Petron Bataan Refinery, refined products are distributed to the various terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third party ship owners. From the storage terminals, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third party owners of the contracted barges and tankers and tank trucks that are used to haul the Company's products are liable for losses and environmental issues that may arise while the products are being transported.

In its Philippine LPG business, the Company has a nationwide network of retail dealerships and outlets. Some service stations carry the Company's LPG products and accessories. The Company has stand-alone LPG operations in its terminals in Pasig City, Legaspi City and San Fernando in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are appointed to sell these products. The Company has a tolling agreement with Innospec for the blending of fuel additive products in its fuel additive blending plant in the Subic Bay Freeport Zone in the Philippines.

The Company has airport installations at the Ninoy Aquino International Airport ("**NAIA**") and three other airports located in major urban centers in the Philippines. These installations provide storage of aviation fuels as well as refueling services for various aircraft. In addition, the Company has presence in the airport installations in Puerto Princesa and Clark in Luzon, Kalibo, Caticlan and Iloilo City in the Visayas, as well as in Zamboanga City in Mindanao.

In 2013, the construction of new storage facilities in the Philippines' NAIA and the Navotas terminal was completed to shore up the Company's ability to serve increasing Jet A-1 requirements.

Malaysia

The Company's products are distributed from the Port Dickson Refinery primarily through tank truck deliveries to the adjacent Port Dickson terminal. The remainder is delivered by coastal tankers to other distribution terminals in Peninsular Malaysia and Sabah. The Company's Malaysian distribution network includes ten product terminals. The Port Dickson terminal is located beside the Port Dickson Refinery, and the other terminals are located near major fuel product market areas.

The map below shows the geographic coverage of the Company's terminals in Malaysia as of September 30, 2017.

Geographic coverage of the Company's terminals in Malaysia

Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline, which is partly owned by the Company through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad ("**PDB**") and Shell Malaysia Trading Sdn Bhd ("**Shell Malaysia**"), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia.

The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal, where inventory is commingled. The Company has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the Klang Valley Distribution Terminal. In 2015, the Company completed a project linking the Port Dickson Refinery to the MPP in order to improve the Company's logistics and reduce the cost of delivery to service stations in the Klang Valley area, a major market. The Company commenced the transport of gasoline and diesel through the MPP to the Klang Valley Distribution Terminal in the second quarter of 2015.

LPG is bottled at the Port Dickson terminal. Most redistribution centers and stockists collect bottled LPG directly from the Port Dickson terminal. The Company has an LPG storage and bottling facility at West Port (part of Port Klang, the principal port facility serving the Klang Valley), which is a 50-50 joint venture between the Company and Boustead Petroleum Marketing Sdn Bhd.

The Company entered the Sarawak market in February 2017 with an initial six DODO stations, subsequently increasing the number to eight. These stations are supplied through a sales and purchase term agreement with a local company, Petronesa Trading Sdn Bhd, from independent terminals located in Kuching and Tanjung Manis.

CAPITAL EXPENDITURE PROJECTS

Petron Bataan Refinery

The Company completed Phase 1 of the Refinery Master Plan ("**RMP-1**") in May 2009, under which it completed the construction of the PetroFCC unit, the propylene recovery unit and the benzene-toluene extraction unit. RMP-1 enhanced the Petron Bataan Refinery's capability to convert low-margin fuel oil into White Products such as LPG, gasoline and diesel. RMP-1 also expanded the Company's venture into production of petrochemical feedstocks such as propylene, benzene, toluene and additional mixed xylene.

The Company completed RMP-2 in the fourth quarter of 2014. RMP-2 was a US$2 billion investment project which enabled the Petron Bataan Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase the Company's production of petrochemicals. The completion of the RMP-2 made the Company the first oil company in the Philippines capable of producing Euro IV-standard fuels, the global standard for clean air fuels. The Petron Bataan Refinery is now also able to produce petcoke, which is used as fuel for the new cogeneration power plant for the Petron Bataan Refinery, lowering the Company's power generation costs. RMP-2 places the Petron Bataan Refinery's utilization, processing and energy efficiency on par with more advanced refineries in the region and improve its competitiveness.

The Company will continue to make investments in the Petron Bataan Refinery facilities that will ensure sufficiency of inputs to critical refinery processes, and storage facilities for more crude and petroleum products. In the medium term, the Company will also assess the viability of further improving the Petron Bataan Refinery's value generation by upgrading its current petrochemical facilities to increase production of high value petrochemicals, benzene, toluene and mixed xylene, and new capability to produce para-xylenes, feedstock for plastic production.

Philippine Retail Network Expansion

To support growth in sales in the Philippines, the Company intends to continue to increase the number of its service stations in urban and rural areas. LPG and lube outlets will also be expanded for a wider market reach. The retail network expansion will also support the optimized disposition of the increased sales volume from RMP-2.

Logistics Expansion and Upgrade

The Company is upgrading and expanding its storage capacity to support the increase in volume from RMP-2. Investments in new terminals are considered in different locations such as the municipalities of Caticlan, and Pasacao, among others. Rehabilitation and expansion of existing terminals such as NAIA, Tagoloan, Navotas, and Mandaue, among others, will also be done, along with improvements in pier facilities. These logistics expansion and upgrade programs also aim to improve product supply reliability to customers and end-users.

In 2013, the construction of new storage facilities in the NAIA and the Navotas terminals were completed to shore up the Company's ability to serve increasing Jet A-1 requirements.

Malaysia Expansion and Improvements

The Company will continue to construct new service stations and expand its retail network in Malaysia. The facilities at the Port Dickson Refinery will also be enhanced to improve operating efficiency. The Company also plans to construct a new diesel hydroteater to meet Euro-5M regulation by 2020. These projects will be financed through a combination of net cash flows provided by operating activities and debt instruments.

COMPETITION

The Philippines

In the Philippines, the Company operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. See "Regulatory and Environmental Matters" for a more detailed discussion of the oil deregulation law.

The Philippine downstream oil industry is dominated by three major oil companies: the Company, Shell and Chevron, which, based on Company estimates based on its internal assumptions and calculations and industry data from the DOE for the first half of 2017, together constituted 61.6% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 other industry market participants, rendering the petroleum business more competitive. The Company, with total crude oil distillation capacity of 180,000 barrels per day, and Shell, with total crude oil distillation capacity of 110,000 barrels per day, operate the only petroleum refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, the Company competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

The Company participates in the reseller (service station), industrial, LPG and lube sectors through its network of service stations, terminals, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. The Company has approximately 2,300 retail service stations as of September 30, 2017 representing approximately 28% of the country's total service station count of about 8,100, reaching more customers throughout the Philippines. The small market participants continued to grow, with station count increasing from 695 in 2001 to 2,260 stations as of September 30, 2017. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of major LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. Although the Company is the biggest participant in the Philippine LPG sector, one of the new participants in this sector, Liquigaz, had a substantial market share of 23.6% in the first half of 2017 based on Company estimates using its internal assumptions and calculations and industry data from the DOE. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

The Company is the leader in the Philippine downstream oil industry, with an overall market share of 31.5% of the Philippine oil market in the first half of 2017, ahead of the other two major oil companies, which have a combined market share of 30.1%, in terms of sales volume based on Company estimates using its internal assumptions and calculations and industry data from the DOE. Approximately 200 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. The Company believes that it is the leader in terms of sales volume in the retail, industrial and LPG market segments based on Company estimates using its internal assumptions and calculations and industry data from the DOE in the first half of 2017. The Company's retail sales volumes for the years ended 2014, 2015 and 2016 and for the nine months ended September 30, 2016 and 2017 were approximately 50,000 barrels per day, 55,000 barrels per day, 58,000 barrels per day, 57,000 barrels per day and 62,000 barrels per day, respectively. The Company's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2014, 2015 and 2016 and for the nine months ended September 30, 2016 and 2017 were approximately 93,000 barrels per day, 117,000 barrels per day, 126,000 barrels per day, 128,000 barrels per day and 118,000 barrels per day, respectively.

The Company believes that its competitive advantages include organization, technology, assets, resources and infrastructure. The Company continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, the Company's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHPetrol. Of these competitors, Petronas also has refinery operations in Malaysia. Market players compete in terms of product quality, customer service, operational efficiency and extent of distribution networks. Pricing of gasoline and diesel at retail service stations is not a competitive factor since the Malaysian government regulates the pricing these products through the APM. See "Regulatory and Environmental Matters — Malaysia — Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011."

Despite being the newest participant in the market, the Company continued to grow its retail market share to 19.7%, with approximately 600 service stations in Malaysia as of September 30, 2017. With the Company's customer-centric programs, completion of the rebranding of service stations and facilities, continuous implementation of retail network expansion program, introduction of new product lines, and improvements in logistics and refinery capabilities, the Company believes that it is well positioned to compete in the retail segment.

The Company continues to face intense competition in the industrial, aviation and wholesale market segments from other local and multi-national oil companies. The Company uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Major participants resort to aggressive pricing in these segments in order to expand market share. The aviation market is also very competitive, as the three local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability. In the LPG segment, the Company competes with Petronas and NGC Energy Sdn Bhd, among others. The APM applies only for sales of LPG in domestic cylinders while industrial and bulk LPG are not covered. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. The Company, being well established, remains competitive in this segment. Overall, the Company's commercial sales volume registered significant growth in all sectors as a result of the Company's reliable and steady supply of quality fuel to sectors such as transportation, manufacturing, construction, mining, agriculture, and power generation. The Company's retail sales volumes for the years ended 2014, 2015 and 2016 and for the nine months ended September 30, 2016 and 2017 were approximately 96,000 barrels per day, 99,000 barrels per day, 105,000 barrels per day, 104,000 barrels per day and 114,000 barrels per day, respectively.

The lubricants and specialties market is dominated by the traditional global brands as well as established local participants. The Company has the advantage of an extensive network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. The Company believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain, and national consumer promotion through service station and independent workshops.

EMPLOYEES

As of September 30, 2017, the Company had 3,123 employees, of which 2,107 are managerial, professional and technical employees, and 988 are rank and file employees. Approximately 81% of the Company's employees are based in the Philippines, with the remaining 19% based in Malaysia and Singapore. The Company believes that it has a well-trained and experienced pool of employees. As of September 30, 2017, approximately 16% of the Company's employees had worked with it for over 20 years. The average tenure of the Company's employees is approximately 9 years in the Philippines and approximately 10 years in Malaysia.

The Company has collective bargaining agreements ("**CBAs**") with three labor unions in the Philippines: (1) Petron Employees Association with 185 members is affiliated with the National Association of Trade Unions and has a CBA effective from January 1, 2015 to December 31, 2019; (2) Petron Employees Labor Union with 41 members has a CBA effective from January 1, 2014 to December 31, 2018; and (3) the Bataan Refiners Union of the Philippines with 593 members is affiliated with the Philippine Transport and General Workers Organization and has a CBA effective from January 1, 2014 to December 31, 2018. As of September 30, 2017, approximately 32% of the Company's employees in the Philippines were covered by CBAs.

The Company has CBAs with two labor unions in Malaysia: (1) the National Union of Petroleum and Chemical Industry Workers has 133 members with a CBA effective from January 1, 2017 to December 31, 2019; and (2) the Sabah Petroleum Industry Workers Union has eight members with a CBA effective from May 1, 2017 to April 30, 2020. As of September 30, 2017, approximately 25% of the Company's employees in Malaysia were covered by CBAs.

The Company has not experienced any strikes or work stoppages for more than 20 years. The Company considers its relationship with its employees to be good.

In addition to Philippine statutory benefits, the Company provides hospitalization insurance, life insurance, vacation, sick and emergency leaves and computer, company and emergency loans to its employees. It has also established a savings plan wherein an eligible employee may apply for membership and may have the option to contribute 5% to 15% of his or her monthly basic salary. The Company, in turn, contributes a maximum of 5% of the monthly basic salary to a member-employee's account in the savings plan. The Company has adopted the "*Rewarding Excellence through Alternative Pay Program*," a performance incentive program that rewards eligible employees who contribute to the achievement of the Company's annual business goals. The Company has a fully-funded tax-qualified defined benefit pension plan, PCERP, which covers all permanent, regular and full-time employees of the Company, excluding its subsidiaries. The control and administration of PCERP are vested in its board of trustees, as appointed by the Board of Directors of the Company. PCERP's accounting and administrative functions are undertaken by the SMC Retirement Funds Office. The annual cost of providing benefits under the plan is determined using the projected unit credit actuarial cost method. As of the Company's latest actuarial valuation date of December 31, 2016, the Company is expected to contribute ₱455.7 million to its defined benefit plans in 2017.

The benefits in Malaysia are substantially similar to those in the Philippines, with the exception of the savings plan and variable pay scheme. Malaysian employment regulations require employers and employees to contribute to an employees' provident fund (the "**EPF**") to provide for the retirement and other needs of employees in Malaysia. Under present regulations, employees contribute a minimum of 8% of their monthly salary to the EPF via payroll deductions. Employers are required to contribute a minimum amount equivalent to 12% to 13% of a managerial, professional and technical ("**MPT**") employee's monthly salary to the EPF. Under collective agreements entered into by the Company with its non-MPT employees in Malaysia, the Company contributes up to 16% of the salaries to the EPF. The Malaysian government does not require employers to make contributions to the EPF with respect to foreign workers. However, if foreign employees opt to contribute the Company will make the commensurate employers' contribution.

The Company depends on experienced, skilled and qualified personnel for the management and operation of its business and prioritizes programs that will ensure the retention and continuous engagement of talent. While the Company's attrition rate is significantly lower than the industry average, it undertakes aggressive talent acquisition activities to maintain an adequate manpower pool. Further, the Company is committed to ensure leadership strength and technical knowledge preservation through an established succession planning program supported by a structured mentoring program for identified replacements of retiring employees. Promising employees are given the opportunity to accelerate their development in the early stages of their careers through a structured coaching program to prepare them for greater roles and responsibilities. The Company also supports

the continuous education of employees through an education reimbursement program for post-graduate studies and employees' participation in functional technical courses, conferences and seminars. The Company believes it has a strong compensation and benefits package and regularly reviews its employee relations programs to continuously attract, retain and engage talent.

RESEARCH AND DEVELOPMENT

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Company engages in research and development to identify improvements that can be made to its production processes. In addition to research and product development, the Company's Research and Development Department ("**R&D**") engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of the Company.

R&D develops revolutionary products that meet and exceed the highest industry quality standards. The Company utilizes appropriate technology in developing new fuel and lubricant products to improve performance, cost-effectiveness, and environment-friendliness of its products. The Company also enhances the quality level of its existing products. The Company remains fully compliant with all government laws and regulations such as the Clean Air Act and the Biofuels Act. To be more competitive both in local and international markets, Petron obtained certification and approvals from globally-accepted licensing organizations and original equipment manufacturers. These approvals are applicable to specific Petron products in the Philippines, Malaysia, China, Brunei, and Cambodia.

The Company believes that its continued success is influenced in part by its ability to be innovative and attentive to consumer preferences and local market conditions. Expenses relating to research and development amounted to approximately ₱66 million in 2014, approximately ₱65 million in 2015, and approximately ₱66 million in 2016, which are equivalent to 0.01% of total revenues in 2014, 0.02% of total revenues in 2015, and 0.02% of total revenues in 2016.

As of September 30, 2017, 26 of the Company's employees were employed in R&D. R&D has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

INTELLECTUAL PROPERTY

The Company has existing and pending trademark registrations for its products for terms ranging from 10 to 20 years. It also has copyrights for its 7-kg LPG container, "*Gasulito*" with stylized letter "P" and two flames, for "*2T Powerburn*," and for Petron New Logo (22 styles). Under Philippine law, copyrights subsist during the lifetime of the creator and for another 50 years after the creator's death. The Company has not had any significant disputes with respect to any of its trademarks or copyrights.

As of September 30, 2017, the Company has filed trademark registrations in Malaysia for 183 brands relating to its Malaysian operations. It has obtained copyright protection for the stylized letter "P" and has registered other trademarks in Malaysia, including "*Petron*", "*Gasul*," "*Fiesta Gas*" and "*Energen*."

PROPERTY

Operating Sites

The Philippines

In the Philippines, the Company owns a petroleum refinery complex located in Limay, Bataan. The Petron Bataan Refinery has a crude oil distillation capacity of 180,000 barrels per day. Its facilities include three crude oil distillation units, two vacuum pipestill units, a delayed coker unit, two catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three naphtha hydro-treaters, two kerosene merox treaters, three gas oil hydro-treater units, a coker gas oil hydro-treater, a polynaphtha oligomerization unit, four LPG treaters, two selective hydro-processing units, an isomerization unit, benzene, toluene and mixed xylene recovery units, two propylene recovery units, four sulfur recovery units, a hydrogen production unit, a hydrogen recovery facility, a nitrogen plant, two waste water treatment facilities, four sour water facilities, a desalination facility, eight steam generators, five turbo generators, four cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude oil carriers, or VLCCs.

The Company also operates a lube oil blending plant in Pandacan, a fuel additives blending plant in Subic Bay Freeport, and a polypropylene plant in Mariveles, Bataan.

Petron operates a network of terminals as bulk storage and distribution points throughout the Philippines, as well as LPG plants in its Pasig, San Fernando and Legaspi terminals. Its airport installations serve the fuel requirements of the airline industry and other aviation accounts.

PETRON TERMINALS, AIRPORT INSTALLATIONS, SALES OFFICES AND MANUFACTURING PLANTS IN THE PHILIPPINES			
	Luzon	Visayas	Mindanao
Terminals	Legaspi, Albay (LPG only) Limay, Bataan Mabini, Batangas Navotas, Metro Manila Pasacao, Camarines Sur (R/A) Pasig, Metro Manila (LPG only) Poro Point, La Union Puerto Princesa, Palawan Rosario, Cavite San Fernando, Pampanga (LPG only) Tondo, Manila	Anibong, Tacloban City Bacolod, Negros Occidental Culasi, Roxas City (R/A) Iloilo City Isabel, Leyte Mactan, Lapu-Lapu City Mandaue, Cebu Ormoc, Leyte Tagbilaran City, Bohol (R/A)	Bawing, General Santos City Davao City Iligan City, Lanao del Norte Jimenez, Misamis Occidental Nasipit, Agusan del Norte Tagoloan, Misamis Oriental Zamboanga City (R/A)
Airport Installations	Laoag, Ilocos Norte NAIA, Metro Manila		Davao City Laguindingan, Misamis Oriental
Sales Offices	Calapan, Oriental Mindoro Mamburao, Occidental Mindoro Masbate, Bicol San Jose, Occidental Mindoro Tondo, Manila	Amlan, Negros Oriental	
Manufacturing Plants	Mariveles, Bataan Pandacan, Manila Subic, Zambales		

Note: R/A indicates that a rationalization agreement is in place in relation to the relevant terminal, which is a contract between the owner-operator of the terminal and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

In the retail market, the Company has approximately 2,300 retail service stations throughout the Philippines as of September 30, 2017, representing approximately 28% of the country's total service station count of approximately 8,100. Most of these stations are located in Luzon, where demand is heaviest.

Malaysia

In Malaysia, the Company owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day. Its facilities include a crude oil distillation unit, a naphtha hydro-treating unit with a processing capacity of 26,000 barrels per day, two semi-regeneration reformer units with a combined processing capacity of 19,000 barrels per day and a kerosene hydro-treating unit with a processing capacity of 12,000 barrels per day. The Port Dickson Refinery also has waste water treatment facilities, a boiler, a cooling water plant, flare and safety relieving facilities, six crude oil storage tanks with a total capacity of approximately 1.1 million barrels, 21 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

PETRON TERMINALS IN MALAYSIA		
	Peninsular Malaysia	Sabah
Terminals	Bagan Luar Klang Valley Distribution Terminal* KLIA Aviation Facility** Kuantan Pasir Gudang*** Port Dickson Westport****	Sandakan Sepangar Bay Tawau

* *Breakdown of equity share as follows: Petron (20%), Shell Malaysia Trading Sdn Bhd (40%), Petronas Dagangan Berhad (40%)*

** *Petron operates within the facility owned by Malaysia Airport Holdings Berhad (MAHB) under an agreement with Kuala Lumpur Aviation Fuelling System Sdn Bhd (KAFS), a subsidiary of Petronas Dagangan Berhad.*

*** *Co-share with Chevron Malaysia Limited*

**** *Co-share with Boustead Petroleum Marketing Sdn Bhd*

The retail business in Malaysia markets fuel and other retail products through a dealer network comprising approximately 600 retail service stations located throughout Peninsular and East Malaysia.

Description of Other Property

All facilities owned by the Company are free from liens and encumbrances.

The Company entered into commercial leases with the PNOC for parcels of land occupied by its Petron Bataan Refinery, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery land for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. The Company is currently in negotiations with PNOC for the renewal of leases relating to 22 terminals and sales offices and 67 service stations that will expire in August 2018. These leases are renewable under such terms and conditions as may be agreed between the parties. On October 20, 2017, the Company filed an action against the PNOC in respect of the leased properties to preserve its rights under the lease agreements. Expenses relating to the PNOC leases paid directly to PNOC and through NVRC amounted to ₱232.2 million in 2016 and ₱178.9 million in the nine months ended September 30, 2017. See "— Legal Proceedings — Leases with PNOC."

The Company leases from NVRC 133 sites for service stations and terminals and pursuant to 25-year lease contracts renewable upon agreement of the parties. Expenses relating to the NVRC leases amounted to ₱236.2 million in 2016 and ₱177.2 million in the nine months ended September 30, 2017.

The Company also leases land for its service stations from third parties pursuant to lease contracts with varying terms that generally range from five to 25 years and which are renewed upon negotiations between the Company and the lessors. As of September 30, 2017, there were leases covering 624 service stations: 457 in Luzon, 92 in the Visayas and 75 in Mindanao. Expenses under these leases amounted to ₱777.2 million in 2016 and ₱728.4 million in the nine months ended September 30, 2017.

In Malaysia, the land on which the Company's retail service stations are based is either owned by the Company or leased from third parties. As of September 30, 2017, the Company owned 245 parcels of land for service stations and leased 250 additional parcels of land for its service stations from third parties. Rentals for the service station lands are either paid in advance and amortized over the lease period, or paid over the lease period pursuant to the relevant schedules. Payments under these leases amounted to approximately RM9.6 million in the nine months ended September 30, 2017. The Port Dickson Refinery occupies a 579-acre site. The Company holds freehold title to 404 acres of this site and leases the remaining 175 acres pursuant to a 99-year lease that expires in 2060.

The Company continuously evaluates available properties for sale based on the needs of the Company's business.

INSURANCE

The Company's insurance coverage includes property, marine cargo and third party liability, as well as personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown and business interruption. One of the main insurance policies of the Company, the Industrial All Risk (the "**IAR**") policy, covers the Petron Bataan Refinery for material damages, machinery breakdown and business interruption. The business interruption coverage under the IAR policy has a US$300.0 million limit. The Company considers its insurance coverage to be in accordance with industry standards.

All insurance policies relating to the Company's Philippine operations are written by its wholly owned insurance subsidiary, Petrogen. The majority of the risks are reinsured with Standard & Poor's A-rated foreign insurers through Ovincor, Petron's Bermuda-based captive insurance subsidiary. The Company's Malaysian operations are insured with local Malaysian insurance companies, as required by Malaysian law.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Company is guided by its Corporate Health, Safety and Environment Policy (the "**Corporate HSE Policy**"). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of the Company. The Company has a Corporate Technical Services Group ("**CTSG**") responsible for formulating, implementing and enforcing the Company's employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations in the Philippines.

The Philippines

The Company is subject to a number of employee health and safety regulations in the Philippines. For example, the Company is subject to the occupational safety and health standards promulgated by the Philippine Department of Labor and Employment.

The Safety unit of the CTSG ("**CTSG-Safety**") ensures, among others, compliance by the Company's contractors and service station dealers to government-mandated safety standards and regulations, and conducts training programs designed to raise awareness on process safety, oil spill response, fire-fighting and basic safety procedures for employees, contractors and service station dealers. CTSG-Safety has put together a Corporate Safety Management System, the main reference of all safety management systems in the Company, which is based mainly on OHSAS 18001. In addition, the Petron Bataan Refinery and some of the Company's terminals and service stations have implemented third party certified management systems. The Petron Bataan Refinery is certified by TUV-SUD-PSB, an internationally recognized certification and inspection body, for its IMS on Quality (ISO 9001), Environment (ISO 14001), and Safety (OHSAS 18001). 30 of the Company's terminals, airport installations, sales offices and manufacturing plants are IMS-certified as of September 30, 2017, 25 of which are compliant to the latest version of Quality Management System (ISO 9001:2015) and Environmental Management System (ISO 14001:2015). In addition, all of the Company's terminals have Philippine Coast Guard-approved Oil Spill Response Contingency Plans.

Furthermore, all 17 terminals with pier facilities are compliant with International Ship and Port Facility Security ("**ISPS**") code certified by the Office of the Transportation Security under the Department of Transportation. ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. The Company's shipping ports for both domestic and international vessels are ISPS certified.

In 2014, CTSG-Safety launched the Safety Management System ("**SMS**") for Service Stations. This program aims to elevate the level of safety awareness among the Company's service station dealers, their employees, workers as well as the Company's employees. The SMS, based on OHSAS 18001:2007, is very similar to the Environmental Management System ("**EMS**"), focusing on Hazards Identification and Risk Assessment. It also aims to educate Petron dealers on the Occupational Safety and Health Standards of the Department of Labor and Employment ("**DOLE**").

As part of its advocacy functions, CTSG-Safety is actively involved in public stakeholder consultations during the drafting of Philippine safety and environmental protection standards, laws and regulations. The Company also actively participates in the implementation of government programs, such as the Tripartite Secretary Seal of Excellence and Gawad Kaligtasan at Kalusugan programs of the Philippine DOLE.

The Environment unit of CTSG ("**CTSG-Environment**") provides, among others, technical assistance and consultancy services on areas of environmental management and conducts environmental awareness training for the Company's employees, contractors and service station dealers. CTSG-Environment is a recognized training organization by DENR-Environment Management Bureau ("**DENR-EMB**") in the conduct of the Basic Pollution Control Officer Training Course for service stations. It also established the Depot ECOWATCH Assessment program, a color-coded rating system for all terminals to assess compliance to applicable environmental regulations and the effectiveness of environmental management programs implemented. CTSG-Environment conducts surveillance audits for service stations with an EMS state of certifiability to ISO 14001:2015 (the Environmental Management System or EMS). As of September 30, 2017, 15 Petron service stations in the Philippines implement an EMS, a first in the Philippine oil industry. In addition, CTSG-Environment conducts environmental due diligence audits for contractors, service providers and possible mergers and acquisitions. It also exercises its advocacy to participate in the crafting of laws with DENR-EMB.

CTSG-Safety and CTSG-Environment conduct annual multi-functional audits of the Petron Bataan Refinery and the Company's other facilities, terminals, service stations and industrial accounts in the Philippines to ensure compliance with Petron safety standards and government laws and regulations on safety.

See "Regulatory and Environmental Matters" for a more detailed discussion of applicable environmental regulations.

As of September 30, 2017, the Company is in material compliance with applicable environmental laws in the Philippines. In particular, the Company has spent US$90.6 million to build a light virgin naphtha isomerization unit and a gas oil hydrotreater in 2006 to ensure compliance with the more stringent requirements of the Philippine Clean Air Act. Additional facilities were also built to comply with environmental requirements mainly in relation to the RMP-2. These included a refinery wastewater treatment plant, sour water stripping facilities, sulphur recovery units, a flue gas desulfurizer and a flare system. See "Regulatory and Environmental Matters" for a more detailed discussion of applicable environmental regulations.

Malaysia

The Company is subject to local safety, health and environmental regulations in Malaysia, including (i) the Factories and Machinery Act 1967 (Act 139), Petroleum (Safety Measures) Act 1984 (Act 302), and the Occupational Safety and Health Act 1994 (Act 514), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Occupational Safety and Health, (ii) the Environmental Quality Act 1974 (Act 127), as amended, and regulations, rules and orders made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988 (Act 341), as amended, and regulations made pursuant thereto, which are administered by the Malaysian Fire and Rescue Department.

CTSG-Safety and CTSG-Environment conduct multi-functional audits of the Port Dickson Refinery and the other facilities, terminals and service stations in Malaysia every two years. The Company has a corporate safety, security, health and environment department that is responsible for formulating, implementing and enforcing the Company's safety, health and environmental policies in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of SSHE and ensuring compliance with applicable laws and regulations. For more than ten years, the Company's operating facilities, plants and other businesses in Malaysia have attained good SSHE performance without any lost-time injury for employees or contractors. The Port Dickson Refinery and distribution terminals at Peninsular and East Malaysia have been awarded annual recognition of their safety and health performance by the Malaysian Society for Occupational Safety and Health for more than five consecutive years. The Port Dickson Refinery has been awarded the Prime Minister Hibiscus Award for Exceptional Achievement in environmental performance. As prescribed by local regulatory requirements, the Port Dickson Refinery and distribution terminals have established emergency response and oil spill contingency plans and regularly conduct drills and exercises. For more than fifteen years, the Company's Malaysian operations have actively participated in local and regional oil spill response consortiums, such as the Petroleum Industries of Malaysia Mutual-Aid Group and Oil Spill Response Ltd.

The Company strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the SMS, which provides a structured approach to the management of work-related personal and operational risks, including the selection, recruitment and training of employees and contractors, equipment design, maintenance and servicing, emergency preparedness and response as well as to ensuring regulatory compliance, and (ii) the LPS, which was adopted to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques.

LEGAL PROCEEDINGS

As set forth below, the Company is involved in ongoing legal cases the outcome of which may or may not have a material adverse effect on its operations and profitability. While the final outcomes of these legal proceedings are not certain, the Company believes it has strong legal grounds in each of these legal proceedings, and has not made any provisions in its financial statements for possible liabilities arising from adverse results of these legal proceedings.

Tax Credit Certificates Related Matters

In 1998, the Philippine Bureau of Internal Revenue ("**BIR**") issued a deficiency excise tax assessment against the Company relating to the Company's use of ₱659 million worth of Tax Credit Certificates ("**TCCs**") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The 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 Board of Investments-registered companies, the Company was a qualified transferee of the TCCs and that the collection by 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 Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by the Company as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in as 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 Company filed its comment on the petition for review filed by the BIR. The petition remains pending.

Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 ("**Ordinance 8027**") reclassifying the areas occupied by the oil terminals of the 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 Company filed a petition with the Regional Trial Court ("**RTC**") to annul Ordinance 8027 and enjoin its implementation. On the basis of a status quo order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("**Ordinance 8119**"), which applied to the entire City of Manila. Ordinance 8119 allowed the Company (and other non-conforming establishments) a seven year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Company questioning Ordinance 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 8027. On March 12, 2007, the 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 Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (the "**Water Code**"). On February 13, 2008, the Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

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

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. In a decision dated September 19, 2017, the Court of Appeals denied the appeal of the 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 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 Company of the operations of its petroleum storage facilities in Pandacan in August 2015.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking its nullification and the enjoinment of its implementation. The 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 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 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 Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision ("**November 25 Decision**") declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The 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 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 Company, the Supreme Court denied Shell's motion with finality, clarified that relocation and transfer necessarily include 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.

Guimaras Oil Spill Incident

On August 11, 2006, M/T Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice ("**DOJ**") and the Special Board of Marine Inquiry ("**SBMI**"), both agencies found the owners of M/T Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found that the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. The Company believes that the SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the 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 aggregate claims for both cases amount to ₱292 million. The cases are still pending.

Pursuant to DENR Memorandum Circular No. 2012-01, the DENR declared that the Guimaras coastal water was already compliant with applicable water quality standards.

Leases with PNOC

On October 20, 2017, the Company filed with the Regional Trial Court of Mandaluyong City a complaint against 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 Company seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of the 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 Company of the conveyed lots for its business operation. Thus, PNOC and the 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.

Earlier in 2009, the 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 complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned and -controlled corporation. The Company alleged that by unilaterally setting aside both the renewal clauses of the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots, and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with the Company.

On December 11, 2017, the trial court granted the Company's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting the Company of possession of the subject properties until the case is decided, conditioned upon the posting by the Company of a bond in the amount of ₱100 million. The Company has posted the required bond.

On December 29, 2017, the trial court mandated the conduct of mediation proceedings on February 5, 2018 before the Philippine Mediation Center.

Other Proceedings

The Company is also 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, the Company believes that the final outcome of these other proceedings will not have a material adverse effect on its business, financial condition or results of operations.

The statements herein are based on the laws in force as of the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

PHILIPPINES

Downstream Oil Industry Deregulation Law

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "**Oil Deregulation Law**"), provides the regulatory framework for the downstream oil industry in the Philippines.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004 and the Supplementing Rules and Regulations of the Oil Deregulation Law in June 1998 through Department Circular No. 98-06-009. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

(a) monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;

(b) monitoring the refining and manufacturing processes of local petroleum products to ensure that clean and safe technologies are applied;

(c) maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;

(d) immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and

(e) in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Promotion of Retail Competition

Pursuant to the Oil Deregulation Law's objective to promote a competitive petroleum product market at the retail level, the DOE is mandated to promote and encourage the active and direct participation of the private sector and cooperatives in the retailing of petroleum products through joint venture or supply agreements with new industry participants for the establishment and operation of gasoline stations. Under prevailing rules and regulations, new industry participants are given preference in the (i) formulation and implementation on management and skills training for the establishment, operation, management and maintenance of gasoline stations and (ii) grant of gasoline station training and loans to be used as capital for the establishment and operation of gasoline stations.

Rules Relating to Retailing of Liquid Petroleum Products

In November 2017, the DOE promulgated Department Circular No. 2017-11-0011 or the Revised Rules and Regulations Governing the Business of Retailing Liquid Fuels (the "**Revised Retail Rules**"). The Revised Retail Rules apply to all persons engaged or intending to engage in the business of Retailing Liquid Fuels. Liquid Fuels refer to gasoline, diesel, and kerosene.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau ("**OIMB**") of its intention to engage in such activity and, upon compliance with the requirements under the Liquid Petroleum Products Retail Rules, secure a certificate of compliance ("**Certificate of Compliance**") from the OIMB. The certificate shall be valid for a period of five (5) years. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a Certificate of Non-Coverage ("**CNC**") by the DOE.

The Revised Retail Rules likewise imposes: (i) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (ii) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (iii) requirements of other types of retail outlets; (iv) the conduct of inspection and monitoring by the OIMB; (v) rules and procedures relating to liquid fuels quantity and quality; and (vi) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. The Prohibited Acts include illegal trading, adulteration, underdelivering, refusal/ obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of Prohibited Acts under the Revised Retail Rules.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (the "**ECC**") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "**EMB**"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("**EIS**") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination ("**IEE**") to the proper EMB regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is mandatory. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory. Presidential Proclamation No. 2146 also classified petroleum and petro-chemical industries as environmentally critical projects.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by the EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The Biofuels Act of 2006

Republic Act No. 9367, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all premium gasoline fuel sold by every oil company in the Philippines should contain a minimum 10% blend of bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In June 2015, the DOE issued Department Circular No. DC 2015-06-005, or the Amended Guidelines on E-10 Implementation, which temporarily waives compliance by oil companies with the required bioethanol blend for premium plus grade gasoline products when supply of locally produced bioethanol products are insufficient to meet demand.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "**Guidelines**") was issued by various Philippine government agencies. The Guidelines mandate oil companies to blend biodiesel with diesel and bioethanol with gasoline. The Guidelines further require oil companies to source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In June 2015, the DOE issued Department Circular No. DC 2015-06-007, or the Revised Guidelines on the Utilization of Locally-Produced Bioethanol ("**Revised Guidelines**"), which repealed Department Circular No. 2011-12-0013, or the "Guidelines on the Utilization of Locally-Produced

Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006". The Revised Guidelines require oil companies operating within the Philippines to secure and maintain a DOE accreditation as an "Oil Industry Participant in the Fuel Bioethanol Program" and submit to the OIMB certain reports in order for the OIMB to monitor the oil companies' compliance with the Revised Guidelines, including an annual performance compliance report relating to the oil companies' compliance with the minimum biofuel blends and monthly reports on compliance with local monthly allocations for the use of locally-sourced bioethanol. The Revised Guidelines further require oil companies to strictly comply with the Local Monthly Allocation ("**LMA**"). The LMA refers to the local bioethanol volume imposed on oil companies based on the committed volume by the local bioethanol producers of bioethanol available for lifting by the oil companies and computed and circulated by the OIMB.

In February 2016, the Congress of the Philippines promulgated Republic Act No. 10745, amending The Biofuels Act of 2006. The law allows natural gas power generation plants to use neat diesel (instead of the mandated biofuel blend) as alternative fuel during shortages of natural gas supply. The DOE issued Department Order No. 2016-07-0012 or the implementing rules and regulations for Republic Act No. 10745. This provides that the natural gas power generating plants with duly issued Certificate of Compliance from the Energy Regulatory Commission can avail of the use of neat diesel in the following instances:

1. During maintenance and/or shutdown of facilities used for the supply of natural gas such as pipelines, terminal, etc.

2. During force majeure which adversely affect the supply of natural gas to natural gas power plants, or

3. Other analogous instances.

All suppliers of natural gas shall submit to the DOE their preventive maintenance schedule indicating the dates when the suppliers of natural gas would be critical. During force majeure events, the DOE shall determine the affected facilities for proper issuance of certification of the shortage of natural gas supplies.

Philippine Clean Air Act of 1999

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by weight by January 1, 2004 nationwide. The law also prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or fuel additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for all types of fuel and fuel related products, to improve fuel consumption for increased efficiency and reduced emissions. The committee is guided by strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

Philippine Clean Water Act of 2004

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources and provide for a comprehensive water pollution management program focused on pollution prevention. The law primarily applies to the abatement and control of water pollution from land based

sources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law. The Philippine Clean Water Act also authorizes the DENR to formulate water quality criteria and standards for oil and gas exploration which encounter re-injection constraints.

LPG Laws and Regulations

B.P. 33

B.P. 33, as amended by PD 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled liquefied petroleum gas cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

(a) That cylinders containing less than the required quantity of liquefied petroleum gas which are not property identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;

(b) In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and

(c) When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or liquefied petroleum gas cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the liquefied petroleum gas cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, “illegal trading in petroleum and/or petroleum products” is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the OIMB, (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of liquefied petroleum gas cylinders without authority from the OIMB, or refilling of another company’s or firm’s cylinders without such company’s or firm’s written authorization, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

“Underfilling” or “underdelivery” refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to liquefied petroleum gas in cylinder or to lube oils in packages.

R.A. 9514 - IRR

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

LPG Industry Rules

In January 2014, the Department of Energy issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the "**LPG Industry Rules**"). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate ("**SCC**") from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

Rules Pertinent to Auto-LPG Motor Vehicles

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled "Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas (LPG) for Automotive Use" (the "**Auto-LPG Rules**"). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, "undue accumulation" shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("**LTO**") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles." The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("**BPS**") of the Philippine Department of Trade and Industry ("**DTI**") under its Philippine Standards Certification Mark scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance.

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of "contributing oil" (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the Maritime Industry Authority ("**MARINA**").

In April 2016, the Department of Transportation (then the Department of Transportation and Communications) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the MARINA and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA issued: (i) Circular No. 2007-01 which mandated the use of double-hull vessels including those below 500 tons deadweight tonnage by the end of 2008 for transporting Black Products; and (ii) Circular No. 2010-01 for transporting White Products in certain circumstances by 2011.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL

combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills. Oil companies, oil explorers, natural gas explorers, power plants/barges and tanker owners are also required to develop shipboard oil pollution emergency plans to be approved by the Philippine Coast Guard.

Moreover, both the Philippine Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Foreign Investment Laws and Restrictions

Land Ownership

The ownership of land by foreign nationals is subject to restrictions provided under the Philippine constitution and related statutes. Under Section 7, Article XII of the Philippine Constitution, in relation to Section 2, Article XII thereof, and Chapter 5 of Commonwealth Act No. 141, private land shall not be transferred or conveyed except to Filipino nationals or to corporations or associations organized under the law of the Philippines and whose capital is least 60% owned by Filipino nationals.

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("**R.A. 8762**"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the DTI or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A — Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly owned by Filipino citizens

- Category B — Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US$2.5 million but less than US$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity.

- Category C — Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US$830,000;[1] and

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[1] Category C ceased to be available as a permitted category with effect from March 25, 2002.

- Category D — Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US$250,000 per store may be wholly owned by foreigners.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US$200 million net worth in its parent corporation for categories B and C, and US$50 million net worth in its parent corporation for category D;

- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US$25 million;

- Five-year track record in retail; and

- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investments Act of 1991

The Foreign Investments Act of 1991 ("**FIA**") liberalized the entry of foreign investment into the Philippines. Under the FIA, foreigners can own as much as 100% equity in domestic market enterprises, except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest (10th) Negative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

(a) a citizen of the Philippines;

(b) a domestic partnership or association wholly owned by citizens of the Philippines;

(c) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;

(d) a corporation organized abroad and registered to do business in the Philippines under the Corporation Code of the Philippines, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or

(e) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease private land for a period of 25 years, renewable for another 25 years.

Consumer Act of the Philippines

Republic Act No. 7394, otherwise known as the Consumer Act of the Philippines ("**Consumer Act**"), the provisions of which are principally enforced by the DTI, seeks to: (a) protect consumers against hazards to health and safety, (b) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (c) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (d) provide adequate rights and means of redress; and (e) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as: (a) consumer product quality and safety; (b) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer's health and safety; (c) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (d) practices relative to the use of weights and measures; (e) consumer product and service warranties; (f) compulsory labeling and fair packaging; (g) liabilities for defective products and services; (h) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (i) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of products and prohibits the manufacture for sale, offer for sale, distribution, or importation of products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder.

Local Government Code

The Local Government Code ("**LGC**") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("**LGU**") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Other Regulatory Requirements

Governmental approval of the Company's products and services is generally not required. However, petroleum products refined at the Petron Bataan Refinery are subject to Philippine National Standards ("**PNS**") specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the PNS. The Oil Deregulation Law also requires the registration with the DOE of any fuel additive prior to its use in a product.

On September 7, 2010, the DENR issued Department Order No. 2010-23 on the Revised Emission Standards for Motor Vehicles Equipped with Compression Ignition and Spark Ignition Engines, mandating compliance of all new passenger and light duty motor vehicles with Euro IV (PH) emission limits subject to fuel availability, starting on January 1, 2016. Euro IV vehicle emission technology requires a more stringent fuel quality of 0.005% sulfur content for both diesel and gasoline.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/ transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate the tariff rates on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ASEAN Trade in Goods Agreement ("**ATIGA**"). Under the ATIGA, crude oil and refined petroleum products imported from Association of Southeast Asian Nations ("**ASEAN**") Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "**Expanded VAT Law**", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity. Under the TRAIN law, excise taxes shall be imposed on diesel, bunker fuel and kerosene and shall form part of the scheduled incremental increase in excise taxes from 2018 to 2020. A scheduled incremental increase in excise taxes for regular gasoline is also imposed under the TRAIN law.

Republic Act No. 9136, or the Electric Power Industry Reform Act of 2001, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

MALAYSIA

Petroleum Development Act, 1974

The Petroleum Development Act, 1974 (the "**PDA**"), which took effect on October 1, 1974, and the Petroleum Regulation 1974, which was enacted pursuant to the PDA (the "**Petroleum Regulation**"), are the primary legislation governing downstream oil activities in Malaysia. Pursuant to the Petroleum Regulation, two government bodies are vested with powers to regulate all downstream activities, namely:

(a) the Ministry of International Trade and Industry ("**MITI**"), which is responsible for the issuance of licenses for the processing and refining of petroleum and the manufacture of petrochemical products; and

(b) the Ministry of Domestic Trade, Cooperative and Consumerism ("**MDTCC**"), which is responsible for regulating the marketing and distribution of petroleum products.

The Company has obtained specific licenses from the MITI for the production of the Company's products. Specific licenses are required pursuant to Section 6 of the PDA for the business of processing or refining petroleum or manufacturing petrochemical products from petroleum at the Port Dickson Refinery. Contravention of the provisions of the PDA or failure to comply with any term or condition of any permission granted thereunder is an offense and is subject to a fine not exceeding RM1 million or imprisonment for a term not exceeding five years or both.

Petroleum (Safety Measures) Act, 1984

The storage and handling of crude oil and oil products and the utilization of equipment and/or appliances used in the downstream oil industry in Malaysia are controlled and governed by the Petroleum (Safety Measures) Act, 1984 (the "**PSMA**") and the regulations made thereunder. The PSMA also regulates the transportation of petroleum by road, railway, water, air and pipeline. A unit of the MDTCC known as The Petroleum Safety Unit was established to administer the PSMA.

Biofuel Industry Act, 2007

The Biofuel Industry Act, 2007 (the "**MBIA**") was enacted on July 18, 2007. The MBIA provides for the mandatory use of biofuel, the licensing of activities relating to biofuel and other matters connected and incidental thereto. The MBIA is designed to regulate the biofuel industry in Malaysia and to promote the mandatory use of Malaysia's domestic palm biodiesel, which is a blend of 5% POME and 95% diesel. The MBIA empowers the Minister of Plantation Industries and Commodities to prescribe (a) the percentage by volume of palm oil and/or methyl ester to be blended in any fuel or (b) the activities in which the use of (i) palm oil and/or methyl ester, (ii) palm oil and/or methyl ester blended with any other fuel or (iii) any other biofuel is to be made mandatory. The MBIA limits the percentage of POME that can be used in a biodiesel mix to a maximum of 5%.

In October 2014, the Malaysian Government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015. The use of B7 Bio-Diesel is expected to be implemented shortly for use in industrial sector, with an exception being given to power generation companies or other industries where the use of Bio-Diesel would not be possible due to mechanical specifications. The Government has proposed to implement the sale of B10 Bio-Diesel (blending of 10% POME and 90% diesel) from the current B7 Bio-Diesel in service stations. However, the proposed date of implementation will only be determined upon completion of discussions between the Malaysian government and various stakeholders including automobile manufacturers.

Sale and Pricing of Refined Petroleum Products

Control of Supplies Act, 1961

The Control of Supplies Act, 1961 (the "**CSA**") was enacted primarily to regulate, prohibit and control the movement of controlled articles in Malaysia. The CSA also regulates the distribution of any controlled article and limits the quantity of any controlled article that may be acquired or held by any person. Petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG have all been classified as controlled articles under the CSA.

Pursuant to the Control of Supplies Regulations 1974, issued pursuant to the CSA, a license is required for any person to deal, by wholesale or retail, in any scheduled article (including petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG) or to manufacture any scheduled article. A separate license is required for each place of business where the scheduled article is manufactured or sold. The Controller of Supplies has the authority to enforce the rules and regulations provided in the CSA and related regulations.

Price Control and Anti Profiteering Act, 2011

The Price Control and Anti Profiteering Act, 2011 (the "**PCAPA**") replaced the Price Control Act, 1946 and came into force on April 1, 2011. The PCAPA provides for the control of prices of goods, whereby the Malaysian government may, among other things, determine the maximum, minimum or fixed prices for the manufacture, production, wholesale or retail of goods.

The Malaysian government generally mandates fixed prices for (a) sales of formulated unleaded gasoline fuel with an octane index of 95 ("**Mogas 95**"), (b) diesel to retail customers, as well as to the commercial transportation and fisheries sectors, and (c) LPG to retail customers, to ensure that increases in international crude oil prices are not borne fully by consumers of such products in Malaysia. Subject to a quota, the Malaysian government subsidizes sales of these products using a formula known as the APM. A subsidy is payable to the seller pursuant to the APM if the mandated price of the relevant product is less than the total built-up cost (as described below) of such product. Conversely, a balancing figure is payable by the seller if the mandated price of the relevant product exceeds the total built-up cost of such product.

As of June 2015, the total built-up cost is determined by aggregating the cost of the relevant product and certain predetermined government-specified amounts, as follows:

	Mogas 95	**Mogas 97**	**Diesel**	**Retail LPG**
Cost of Product	Based on MOPS	Based on MOPS	Based on MOPS	Based on Saudi CP
Alpha	5 sen/liter	15 sen/liter	4 sen/liter	USD80.00/MT
Freight, Distribution and Marketing Cost	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 9.54 sen/liter Sarawak: 9.54 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 38.95 sen/kg Sabah: 72.10 sen/kg Sarawak: 71.26 sen/kg
Oil company margin	5 sen/liter	5 sen/liter	2.25 sen/liter	11.35 sen/kg
Dealer Margin	12.19 sen/liter	12.19 sen/liter	7 sen/liter	Peninsular Malaysia: 35.00 sen/kg Sabah: 35.00 sen/kg Sarawak: 35.00 sen/kg

The specified amounts for alpha, freight, distribution and marketing cost, oil company margin and dealer margin are fixed by the Malaysian government and subject to change. The Malaysian government last revised the dealer margin in June 2008, while the alpha, freight, distribution and marketing cost, and oil company margin were last revised in June 2015. For retail LPG, the alpha and dealer margin for all states, and the freight, distribution and marketing costs for the states of Sabah and Sarawak, were revised upwards in June 2015.

Effective March 30, 2017, the Malaysian government implemented a managed float system under which the government fixes the government-mandated retail prices for RON 95 and RON 97 petroleum and diesel on a weekly basis based on MOPS.

As of September 30, 2017, the Malaysian government-mandated prices for the products that are covered by the APM were RM 2.16 per liter for Mogas 95, RM 2.46 per liter for Mogas 97, RM 2.12 per liter for diesel and RM 1.90 per kilogram for LPG. The government-mandated price of RM 1.65 per liter for diesel applies to sales to the fisheries sector; and RM 1.8810 (Peninsular Malaysia), RM 1.8840 (Sabah) and RM 1.8780 (Sarawak) per liter for diesel applies to sales to the transport sector.

The amount of the subsidies or duties varies from month to month for Mogas 95 and diesel. There are no duties on LPG and no limit on the subsidies for retail LPG.

The sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial customers at unregulated prices. Accordingly, the Company is required to manage its subsidized diesel sales on a monthly basis to ensure that such sales do not exceed the amount permitted under the approved quotas. The Company has a quota to sell diesel at all of its retail service stations in Malaysia. Customers in the selected transportation sectors are required to obtain their own quotas in order to be able to purchase diesel from the Company. The Company has also been licensed to supply distributors that are appointed by the Malaysian government to sell diesel to unbranded mini stations and to collect subsidies in respect of such sales.

The Company's quotas for subsidized diesel sales are provided and regulated by the MDTCC, which reviews the quotas on a quarterly basis. If the Company requires an increase in its approved quota during any quarter as a result of an increase in demand, it may apply to the MDTCC for a quota increase in respect of a specific month during that quarter. If the Company sells more subsidized diesel than is permitted under the approved quotas, it will not be eligible to receive a government subsidy in respect of the sales that exceed the approved quotas.

Environmental Laws

Environmental Quality Act, 1974

The Environmental Quality Act, 1974 (the "**EQA**") governs the prevention, abatement and control of pollution and enhancement of the environment in Malaysia and covers, among other things, oil spills and pollutants on land and in Malaysian waters. The EQA, which was introduced by the Malaysian government to promote environmentally sound and sustainable development restricts atmospheric, noise, soil and inland-water pollution without a license, prohibits the discharge of oil and waste into Malaysian waters without a license and prohibits open burning. The Department of Environment (the "**MDOE**") is the regulatory body responsible for administering the EQA and any regulations and orders made thereunder.

The MDOE will also have responsibility for monitoring the implementation of and compliance with Euro 4M and Euro 5M standards in Malaysia, which are the Malaysian equivalent of Euro IV and Euro V-standards. The main change from the current Euro 2M standards to Euro 4M and Euro 5M standards for Mogas and diesel will be the reduction in sulfur content, consistent with Euro IV and Euro V standards. Euro 4M for RON 97 was implemented in September 2015. The implementation of Euro 4M and Euro 5M fuels will be in phases: Euro 4M for RON 95 by October 1, 2018, Euro 5M (sulfur specification only) for Diesel, RON 95 and RON 97 by the year 2020, and Euro 5M (of all other parameters) for Diesel, RON 95 and RON 97 by the year 2027.

The Malaysian government has mandated that Diesel, RON 95 and RON 97 sold in Malaysia must comply with Euro 5M specifications by 2027. The Malaysian government, however, has proposed to accelerate the date of implementation, subject to the agreement of all stakeholders, to 2025. This is in line with the move by downstream oil companies in Malaysia, including the Company, that introduced and supplied Euro 5M standards earlier in service stations.

The facilities at the Port Dickson Refinery are being enhanced to comply with Euro 4M standards, and these enhancements are expected to be completed before Euro 4M standards come into force. The current configuration of the facilities will allow the Port Dickson Refinery to produce gasoline

compliant with Euro 4M standards. The formulation of Euro 4M specifications was carried out by SIRIM Berhad in conjunction with other interested parties, including Malaysian oil companies, the Malaysian car manufacturers' association, and regulatory bodies, such as the MDTCC and the MDOE. SIRIM Berhad is a wholly owned company of the Malaysian government incorporated under the Malaysian Ministry of Finance. The Port Dickson Refinery plans to implement Euro 5M standards by the fourth quarter of 2020.

Other Laws

Companies Act, 1965

The Companies Act which came into effect on April 15, 1965, governs the incorporation and registration of companies in Malaysia. The agency that oversees such incorporation is the Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia) ("**CCM**").

Under the Companies Act, a corporation's existence does not have an expiration but may be terminated through dissolution by: (i) the winding up of the company, either voluntarily or pursuant to an order of the court; or (ii) the striking out by the Registrar, in the exercise of its discretionary powers, of the name of the company based on any of the grounds provided under the Companies Act.

Malaysian Corporate Governance Code

The Securities Commission Malaysia released the new Malaysian Code on Corporate Governance ("**MCCG**") on April 26, 2017, which takes effect immediately. The MCCG is a set of best practices to strengthen corporate culture anchored on accountability and transparency. The Company is moving to adopt the principles and recommendations elaborated in the MCCG and as required, report the same in the Company's 2017 Annual Report (to be released in 2018).

Other Regulatory Requirements

The Company has a general duty pursuant to the Occupational Safety and Health Act, 1994 and the regulations made thereunder to (a) provide and maintain plants and systems of work that are, to the extent practicable, safe and without risks to health, (b) provide information, instruction, training and supervision to ensure, to the extent practicable, the safety and health of the Company's employees at work and (c) provide a working environment that is, to the extent practicable, safe, without risk to health and adequate with respect to facilities related to employee welfare at work. The Company also has a duty to ensure, to the extent practicable, that other persons who are not employees of the Company are not affected by, and are not exposed to risks to their safety or health by, the conduct of the Company's business. As the Company employs more than 100 employees in Malaysia, it must employ a safety and health officer, who is tasked with ensuring the due observance of statutory obligations with respect to workplace health and safety and the promotion of safe work conduct at the workplace.

MANAGEMENT

Directors

Set out below are the name, position and year of appointment of members of the Board of Directors of the Company as of the date of this Offering Circular.

Name	Position	Year Appointed as Director
Eduardo M. Cojuangco, Jr.	Chairman of the Board of Directors	2009
Ramon S. Ang	President and Chief Executive Officer and Director	2009
Lubin B. Nepomuceno	General Manager and Director	2013
Eric O. Recto	Director	2008
Estelito P. Mendoza	Director	2009
Jose P. de Jesus	Director	2014
Ron W. Haddock	Director	2008
Aurora T. Calderon	Director	2010
Mirzan Mahathir	Director	2010
Ma. Romela M. Bengzon	Director	2010
Virgilio S. Jacinto	Director	2010
Nelly F. Villafuerte	Director	2011
Reynaldo G. David	Independent Director	2009
Artemio V. Panganiban	Independent Director	2010
Margarito B. Teves	Independent Director	2014

Certain information on the business and work experience of each Director is set out below.

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

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

Ramon S. Ang, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company's Executive Committee. He holds the

following positions, among others: Chairman of Petron Malaysia Refining & Marketing Bhd. ("**PMRMB**"), Las Lucas Construction and Development Corporation ("**LLCDC**"), New Ventures Realty Corporation ("**NVRC**"), and SEA Refinery Corporation ("**SRC**"); Chairman and Chief Executive Officer of Petron Marketing Corporation ("**PMC**") and Petron Freeport Corporation ("**PFC**"); Chairman and President of Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. ("**PAHL**"), Philippine Polypropylene Inc. ("**PPI**") and Robinson International Holdings Ltd.; Director of Petron Fuel International Sdn. Bhd. ("**PFISB**"), Petron Oil (M) Sdn. Bhd. ("**POMSB**"), Petron Oil & Gas Mauritius Ltd. ("**POGM**") and Petron Oil & Gas International Sdn Bhd. ("**POGI**"); Vice Chairman, President and Chief Operating Officer of SMC; Chairman of San Miguel Brewery Inc. ("**SMB**"), San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Manila North Harbour Port, Inc. ("**MNHPI**") and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp. and Far East Cement Corporation; Chairman and President of San Miguel Properties, Inc., Chairman of Eagle Cement Corporation; Vice Chairman of GSMI and SMPFC; President and CEO of Top Frontier Investment Holdings Inc. ("**Top Frontier**") and President Northern Cement Corporation; Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region. Previously, Mr. Ang was Chairman of Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc.; Chairman and President of Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Chief Executive Officer of the Paper Industries Corporation of the Philippines, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation. Mr. Ang has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

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

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

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

Eric O. Recto, Filipino, born 1963, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman of Philippine Bank of Communications ("**PBCom**"); Chairman and CEO of ISM Communications Corporation ("**ISM**"), and Vice Chairman and President of Atok-Big Wedge Corporation ("**Atok**"); President and Director of Q-Tech Alliance Holdings, Inc.; and a member of the Board of Supervisors of Acentic GmbH. Mr. Recto was the President and Vice Chairman of the Company (2008-2014), the Chairman and Chief Executive Officer of PFI, and a Director of SMC, PMRMB and the Manila Electric Company ("**MERALCO**"). He was

formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. Prior to his stint with Government, Mr. Recto was Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and a master's degree in Business Administration from the Johnson School, Cornell University.

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

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

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

Jose P. de Jesus, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is also the Chairman of Clark Development Corporation, Converge ICT Solutions, Inc. and Metroworks ICT Construction, Inc. (May 2014 to present). He was the President and Chief Executive Officer of Nationwide Development Corporation (September 2011 to December 2015), the Secretary of the Department of Transportation and Communications (July 2010 to June 2011), the President and Chief Operating Officer of MERALCO (February 2009 to June 2010), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 to December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 to December 1999), Chairman of the Manila Waterworks & Sewerage System (1992 to 1993) and the Secretary of the Department of Public Works and Highways (January 1990 to February 1993). He was awarded the Philippine Legion of Honor, Rank of Commander in June 1992 by then President Corazon C. Aquino. He was Lux in Domino Awardee (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation and South Luzon Tollway Corporation. He is a Trustee of Bantayog ng mga Bayani Foundation, Kapampangan Development Foundation and Holy Angel University. Mr. de Jesus earned his Bachelor of Arts degree in Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.

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

Ron W. Haddock, American, born 1940, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; and member of the board of Alon Energy USA. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management

positions in Exxon Mobil Corporation including as Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, and Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

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

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

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

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

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

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

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

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

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

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

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

Reynaldo G. David, Filipino, born 1942, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and likewise a member of the Risk Oversight Committee, Corporate Governance Committee and the Related Party Transaction Committee. He is an independent director and a member of the Audit Committee, Nomination and Compensation Committee of SMC. He has previously held, among others, the following positions: Philippine Special Trade Representative with the rank of Special Envoy, President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Independent Director of ISM and Atok, Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986), various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979-September 1982), and Vice President and Treasurer of Citibank N. A. (November

1964-February 1979). He was conferred with the Presidential Medal of Merit in 2010. A Ten Outstanding Young Men awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

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

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

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

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

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

Senior Management

Set out below are the name, position and year of appointment of the Executive Officers and senior management of the Company as of the date of this Offering Circular.

Name	Position	Year Appointed as Officer
Ramon S. Ang	President and Chief Executive Officer	2015
Lubin B. Nepomuceno	General Manager	2015
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	2009
Susan Y. Yu	Vice President, Procurement	2009
Albert S. Sarte	Treasurer and Vice President, Treasurers	2009
Ma. Rowena O. Cortez	Vice President, Supply	2009
Freddie P. Yumang	Vice President, Refinery	2009
Archie B. Gupalor	Vice President, National Sales	2012
Joel Angelo C. Cruz	Vice President, General Counsel & Corporate Secretary/Compliance Officer	2010
Rolando B. Salonga	Vice President, Operations	2017
Julieta L. Ventigan	Vice President — Business Planning and Development	2015
Dennis S. Janson	Controller and Assistant Vice President, Controllers	2015

Certain information on the business and experience of each of the Executive Officers of the Company who are not directors is set out below:

Emmanuel E. Eraña, Filipino, born in 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB, POMSB and MNHPI. Mr. Eraña held the following positions in the San Miguel Group: as the Vice President and Chief Information Officer (January 2008-December 2009), Vice President and Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006-January 2008), Vice President and Chief Finance Officer of SMFBIL/NFL Australia (May 2005-November 2006), Vice President and Chief Finance Officer of SMPFC (July 2002-May 2005), and Assistant Vice President and Finance Officer (January 2001-June 2002), Assistant Vice President and Finance and Management Services Officer, San Miguel Food Group (2000-2001). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

Susan Y. Yu, Filipino, born in 1976, has served as the Vice President for Procurement of the Company since January 2009. She is also a Director of Ovincor and Petron Singapore Trading Pte. Ltd. ("PSTPL"). Ms. Yu has served as a Trustee of PFI, the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003-February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997-June 2003). She holds a commerce degree in Business Management from the De La Salle University and a master's degree in Business Administration from the Ateneo de Manila University, for which she was awarded a gold medal for academic excellence.

Albert S. Sarte, Filipino, born in 1967, has served as the Vice President and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

Ma. Rowena O. Cortez, Filipino, born in 1964, has served as the Vice President for Supply of the Company since September 2013, and concurrently the Director for PSTPL since June 2013. She is also a Director of PAHL, Robinson International Holdings Ltd., and Mariveles Landco Corporation. The various positions she has held in the Company include Vice President for Supply & Operations (July 2010-August 2013), Vice President for Supply (June 2009-June 2010) and various managerial and supervisory positions in the Marketing/Sales and Supply and Operations Divisions of Petron. Ms. Cortez also held various positions at the Phil. National Oil Company-Energy Research and Development Center from 1986 to 1993. She holds a Bachelor of Science degree in Industrial Engineering and a master's degree in Business Administration both from the University of the Philippines, Diliman. She also took post graduate courses at the AIM and the University of Oxford in Oxfordshire, UK. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, risk management, petroleum, petrochemicals and energy.

Freddie P. Yumang, Filipino, born in 1958, has served as the Vice President for Refinery of the Company since September 2009. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. He is the lead of the Company's RMP-2 project and has held various positions in the Company, including Operations Manager and Technical Services Manager, and different supervisory and managerial positions at the Limay Refinery. Mr. Yumang is currently a director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007). He is a Mechanical Engineering graduate of the Mapua Institute of Technology and earned units for a master's degree in Business Administration from the De La Salle University. He also attended the Basic Management and Management Development Programs of the AIM in 1992 and 2002, respectively, in which he received separate awards for superior performance.

Archie B. Gupalor, Filipino, born in 1968, has served as the Vice President for National Sales of the Company since March 2012. He holds the following positions, among others: President and Chief Executive Officer of PFC and Director of PMC, NVRC and LLCDC. Mr. Gupalor served the following positions in the San Miguel Group: He has been with the San Miguel Group since 1991. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and attended several programs here and abroad, including the Executive Management Development Program of the Harvard Business Publishing.

Joel Angelo C. Cruz, Filipino, born 1961, has served as the Vice President of the Office of the General Counsel of the Company since March 2013 and the Corporate Secretary and Compliance Officer of the Company since April 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, Corporate Secretary of LLCDC, NVRC, PMC, and PFC; Corporate Secretary of Petron Global Limited; Assistant Corporate Secretary of MNHPI; and Trustee of PFI. Atty. Cruz was formerly the Assistant Vice President of the Office of the General Counsel, Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries. He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws degree from San Beda College. He attended the Basic Management Program of the AIM in 1997 as well as numerous local and foreign training and seminars.

Rolando B. Salonga, Filipino, born in 1961, has served as Vice President for Operations and Corporate Technical Services Group since May 1, 2017. Previous positions he held include Vice President for Terminal Operations (November 16, 2016-April 30, 2017), Assistant Vice President for Operations (September 2015-November 2016), Officer-in-Charge-Operations (March 2015-August 2015), Supply and Distribution Head of Petron Malaysia (April 2012-February 2015), Functional Team Lead-Distribution, Project Rajah (Malaysian Acquisition) (October 2011-March 2012), Manager-Visayas Operations (July 2009-October 2011), Manager-Distribution (May 2005-May 2009), Superintendent-Mandaue Terminal (April 2001-May 2005), Superintendent-Pandacan Manufacturing

(April 1994-April 2001), Superintendent-Pandacan Lubeoil Warehouse (November 1994-March 1995) and Superintendent-Pandacan Transportation/Distribution (April 1993-October 1994). Mr. Salonga has a Bachelor of Science degree in Mechanical Engineering from the Mapua Institute of Technology.

Julieta L. Ventigan, Filipino, born in 1959, has served as the Vice President for Business Planning and Development of the Company since September 2015. She previously held the position of Assistant Vice President for Business Planning and Development from October 2010 until August 2015. The various positions she has held in the Company include Head of Business Planning and Development (August 2010-September 2010), Manager for Corporate Planning/Business Planning and Analysis (January 2010-July 2010) and Manager for Corporate Planning/Strategic Planning (April 2003-December 2009). She has a Bachelor of Science degree major in Agricultural Economics from the University of the Philippines in Los Baños and a master's degree in Business Administration from the Ateneo Graduate of School of Business.

Dennis S. Janson, Filipino, born in 1959, has served as the Assistant Vice President for Controllers and the Controller of the Company since September 2015. He is a Director of PSTPL and the Controller of various subsidiaries of Petron. Other positions he held include Assistant Controller of the Company (August 2014-August 2015), Manager for Financial Analysis and Compliance Controller (March 2013-July 2014; January 2010-September 2011), Finance Head and Chief Finance Officer of Petron Malaysia (October 2011-February 2013), and Manager for Financial Analysis Planning and Risk Management (November 2008-December 2009). He is a certified public accountant with a Bachelor of Science degree in Accountancy from the University of San Carlos in Cebu.

SHARE OWNERSHIP

The following table sets forth the share ownership of the Company's Directors and Executive Officers as of September 30, 2017.

Name	Direct	Indirect	Total Direct and Indirect Shares	% to Total Outstanding Shares
Eduardo M. Cojuangco, Jr	1,000	—	1,000	0.0000%
Ramon S. Ang	1,000	—	1,000	0.0000%
Lubin B. Nepomuceno	5,000	—	5,000	0.0001%
Eric O. Recto	1	—	1	0.0000%
Estelito P. Mendoza	1,000	—	1,000	0.0000%
Jose P. de Jesus	500	225,000	225,500	0.0024%
Ron W. Haddock	1	—	1	0.0000%
Aurora T. Calderon	1,000	—	1,000	0.0000%
Mirzan Mahathir	1,000	—	1,000	0.0000%
Ma. Romela M. Bengzon	1,000	—	1,000	0.0000%
Virgilio S. Jacinto	1,000	—	1,000	0.0000%
Nelly F. Villafuerte	1,000	—	1,000	0.0000%
Reynaldo G. David	1,000	—	1,000	0.0000%
Artemio V. Panganiban	1,000	—	1,000	0.0000%
Margarito B. Teves	500	—	500	0.0000%
Emmanuel E. Eraña	0	—	0	0.0000%
Susan Y. Yu	0	425,000	425,000	0.0045%
Ma. Rowena O. Cortez	8,580	—	8,580	0.0001%
Freddie P. Yumang	0	73,600	73,600	0.0008%
Albertito S. Sarte	0	1,050,000	1,050,000	0.0112%
Archie B. Gupalor	3,000	—	3,000	0.0000%
Joel Angelo C. Cruz	0	—	0	0.0000%
Rolando B. Salonga	845	—	845	0.0000%
Dennis S. Janson	163	15,000	15,163	0.0002%
Julieta L. Ventigan	2,100	—	2,100	0.0000%

The aggregate number of shares owned by the Company's Directors and Executive Officers as a group as of the date of this Offering Circular is 1,819,290 shares, or approximately 0.019% of the Company's outstanding common and preferred shares.

FAMILY RELATIONSHIPS

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors and/or executive officers of the Company.

COMMITTEES OF THE BOARD

Pursuant to the Company's new Manual on Corporate Governance adopted on May 8, 2017, the Board created each of the following committees and appointed Board members thereto.

Audit Committee

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.

As of the date of this Offering Circular, the chairman of the Audit Committee is Reynaldo G. David and its members are Margarito B. Teves, Artemio V. Panganiban, Estelito P. Mendoza and Aurora T. Calderon. Ferdinand K. Constantino, a former Director, serves as an advisor to the Audit Committee.

Executive Committee

The Executive Committee has been delegated the authority to exercise certain powers of the Board of Directors in the management of the business and affairs of the Company while the Board is not in session. As of the date of this Offering Circular, the chairman of the Executive Committee is Eduardo M. Cojuangco, Jr. and its members are Ramon S. Ang, and Lubin B. Nepomuceno. Aurora T. Calderon and Virgilio S. Jacinto act as alternate members of the Executive Committee.

Corporate Governance Committee

The Corporate Governance Committee is tasked to assist the board of directors in the performance of its corporate governance, nomination and remuneration responsibilities and ensure compliance with and proper observance of corporate governance principles and practices. As of the date of this Offering Circular, the chairman of the Corporate Governance Committee is Margarito B. Teves and its members are Reynaldo G. David, Artemio V. Panganiban, Virgilio S. Jacinto and Estelito P. Mendoza.

Risk Oversight Committee

The Risk Oversight Committee is responsible for the oversight of the enterprise risk management system of the Company to ensure its functionality and effectiveness. As of the date of this Offering Circular, the chairman of the Risk Oversight Committee is Artemio V. Panganiban and its members are Reynaldo G. David and Aurora T. Calderon.

Related Party Transaction Committee

The Related Party Transaction Committee is tasked with reviewing all material related party transactions of the Company. As of the date of this Offering Circular, the chairman of the Related Party Transaction Committee is Margarito B. Teves and its members are Reynaldo G. David and Aurora T. Calderon.

COMPENSATION

Standard Arrangements

The Company's Executive Officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They likewise receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services other than those provided as a Director.

Employment Contract

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one year term until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any Director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options held by Directors or Executive Officers.

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (including the estimate for 2017; in millions of pesos):

Name	Principal Position	Year	Salary (₱ millions)	Bonus (₱ millions)	Other Annual Compensation
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President & CEO General Manager SVP/Chief Finance Officer Vice President — Refinery Vice President — National Sales	2017	92.07	23.07	—
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President (effective Feb. 10, 2015) & CEO General Manager (effective Feb. 10, 2015) SVP/Chief Finance Officer Vice President — Refinery Vice President — National Sales	2016	87.75	32.29	—
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	Chairman President SVP/Chief Finance Officer Vice President — Refinery Vice President — National Sales	2015	79.87	28.56	—
All other officers and directors of the Company (unnamed)		2017 (est)	69.39	13.72	—
		2016	64.43	26.72	
		2015	58.03	14.87	

PRINCIPAL SHAREHOLDERS

As of September 30, 2017, the Company had 9,375,104,497 common shares and 10,000,000 preferred shares issued and outstanding. The table below sets forth certain information with respect to beneficial ownership of the Company's common shares as of September 30, 2017 for each shareholder known by the Company to own more than 5% of the Company's common shares.

Name	Total Common Shares	Percentage of the issued common share capital of the Company
SEA Refinery Corporation	4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560[1]	18.16%[1]
PCD Nominee Corp. (Filipino)	1,428,053,963	15.23%
Petron Corporation Employees' Retirement Plan	731,156,097	7.80%

(1) Represents shares directly owned by SMC. Excludes common shares indirectly owned by SMC through SRC.

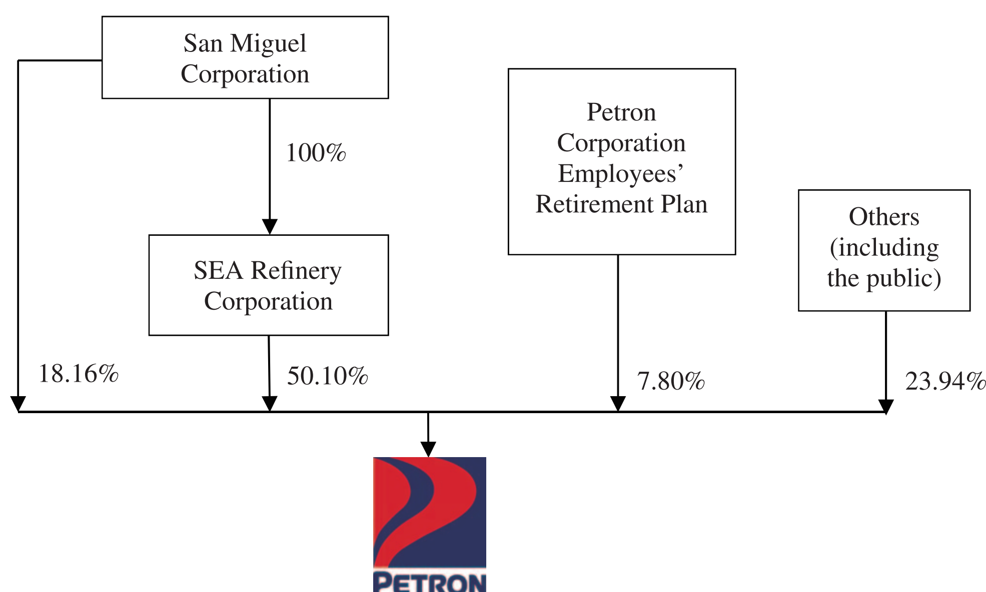
SRC is a Philippine company wholly owned by SMC.

SMC is Southeast Asia's largest publicly listed food, beverage and packaging company. Its broad range of businesses includes properties, fuel and oil, energy, infrastructure, and investment in banking.

PCERP is a tax qualified and fully funded defined pension plan covering all permanent, regular and full-time employees of the Company. It is administered by its board of trustees. Certain members of the Company's management are also trustees of PCERP.

Currently, SMC directly owns 1,702,870,560 common shares representing 18.16% of the Company's total issued common share capital. As mentioned above, SMC also owns 100% of SRC. Therefore, the total number of common shares beneficially owned, directly and indirectly, by SMC is 6,399,756,124 common shares, representing 68.26% of the Company's total issued common share capital.

The chart below sets forth the ownership structure of the Company's common shares as of the date of this Offering Circular.



RELATED PARTY TRANSACTIONS

The Company engages from time to time in a variety of transactions with related parties. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into under terms comparable to those available from unrelated third parties. For more information regarding the Company's transactions with related parties, see note 28 to the Company's audited consolidated financial statements as of and for the period ended December 31, 2016 included elsewhere in this Offering Circular.

Petron Corporation Employees' Retirement Plan

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company. In January 2012, PCERP sold 7.4% of the Company's outstanding common shares to the public. In December 2012, PCERP sold 2.08% of the Company's outstanding common shares to Credit Suisse (Singapore) Limited. In March 2014, PCERP sold an additional 5.02% of the Company's common shares to the public. In August 2014, PCERP further sold an additional 4.05% of the Company's total outstanding shares to the public. In December 2014, PCERP acquired 2.08% of the Company's common shares held by Credit Suisse (Singapore) Limited through the PSE. PCERP to date holds common shares comprising 7.80% of the outstanding common stock of the Company.

A significant portion of the ₱20.8 billion advance from the Company to PCERP was used to fund the purchase. The advance bears interest at market rates.

The proceeds of the sales of the Company's common shares by PCERP were used partially to repay advances made by the Company in 2010.

San Miguel Corporation

SMC is a major stockholder of the Company. See "Principal Shareholders." The Company has supply agreements with various SMC subsidiaries, under which the Company supplies the bunker fuel oil, diesel fuel and lubricant requirements of selected SMC plants and subsidiaries. Generally, the pricing formulae under these agreements are based on MOPS. Aggregate revenue with related parties amounted to approximately ₱7.85 billion, ₱4.04 billion, ₱6.90 billion and ₱2.63 billion for the years ended December 31, 2014, 2015 and 2016, and the nine months ended September 30, 2017, respectively. The Company also currently leases office space from an SMC subsidiary pursuant to a lease agreement that was entered into on an arm's length basis.

New Ventures Realty Corporation

NVRC is a subsidiary of the Company 40%-owned by the Company and 60%-owned by PCERP. The Company leases from NVRC certain parcels of land where the Petron Bataan Refinery and its service station sites, terminals and bulk plants are located. NVRC is the holder of the lease over the site of the Petron Bataan Refinery of which PNOC is the lessor. Lease expenses in connection with the NVRC leases in 2014, 2015, 2016 and the first nine months of 2017 amounted to approximately ₱430.97 million, ₱443.02 million, ₱409.80 million and ₱311.25 million, respectively.

The statements herein regarding taxation are based on the laws and administrative guidelines and circulars issued by the relevant authorities in force as of the date of this Offering Circular and are subject to any changes in such laws, administrative guidelines or circulars, or in the interpretation of those laws, guidelines or circulars occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities or dealers which have been granted financial sector tax incentives in Singapore) may be subject to special rules. Prospective purchasers of Securities are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Securities.

Philippine Taxation

On January 1, 2018, Republic Act No. 10963, otherwise known as the TRAIN took into effect. The TRAIN amended provisions of the Philippine Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Capital Gains Tax on the sale and disposition of securities, Estate Tax, and Donor’s Tax.

As used in this section, the term “resident alien” means an individual whose residence is within the Philippines and who is not a citizen of the Philippines and a “non-resident alien” means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines;” however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a “non-resident alien not engaged in trade or business within the Philippines.” A “domestic corporation” is a corporation created or organized in the Philippines or under its laws. A “resident foreign corporation” is a foreign corporation engaged in business within the Philippines and a “non-resident foreign corporation” is a foreign corporation not engaged in business within the Philippines.

The characterization of the Securities and Distributions for tax purposes is not settled under Philippine tax laws and regulations. Subject to definitive law or regulation or a specific ruling issued by Philippine tax authority in respect of the Securities, the Distributions may be treated either as dividends or interest for tax purposes. Interest on debt instruments or interest-bearing obligations of residents (corporate or otherwise), and the amount received as dividend from domestic corporations, are generally considered as income derived from a source within the Philippines. Since the Company is a a domestic corporation, receipt by Securityholders of Distributions will be treated as income derived from a source within the Philippines and will generally be subject to Philippine income tax.

Documentary Stamp Tax

Under the Philippine Tax Code, certain documents, instruments, papers, acceptances, assignments, sales and transfers of obligations, rights or property are subject to documentary stamp tax. Documentary stamp tax will be levied, collected and paid for by the person making, signing, issuing, accepting or transferring the document, wherever the document is made, signed, issued, accepted or transferred, when the relevant obligation or right arises from a Philippine source or the relevant property is situated in the Philippines.

The Philippine Tax Code imposes documentary stamp tax on all original issuances of shares of stock at a rate of ₱2.00 for each ₱200, or fractional part thereof, of the par value of such shares of stock or, in the case of no par value shares, the actual consideration for the issuance of the shares. On every issue of debt instruments, the Philippine Tax Code imposes a documentary stamp tax at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of any such debt instruments

provided that the documentary stamp tax on debt instruments with terms of less than one year shall be proportional to the amount of tax in accordance with the ratio of its term in numbers of days to 365 days. The original issuance of the Securities will therefore be subject to documentary stamp tax at the aforementioned rate depending on whether they are treated as shares of stock or debt instruments. The documentary stamp tax due on the original issuance of the Securities will be for the account of the Company.

Transfers of shares of stock by assignment in blank, delivery, or by any paper, agreement or memorandum or other evidence of transfer or sale (including to secure the future payment of money or for the future transfer of stock) are subject to documentary stamp tax at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the par value of such shares of stock, or at an amount equivalent to 50% of the documentary stamp tax paid upon the issuance of the shares in the case of no par value shares. Accordingly, subsequent transfers or dispositions of Securities, if treated as shares of stock for tax purposes, will be subject to documentary stamp tax at these rates.

Generally, no documentary stamp tax is payable on the subsequent transfer or disposition of debt instruments, provided that the transfer or disposition does not constitute a renewal or entail a change in the maturity date of the relevant instrument. No documentary tax is likewise payable on fixed income and other debt instruments traded in the secondary market or through an exchange. Accordingly, if the Securities are treated as debt instruments, no documentary stamp tax will generally be imposed on their subsequent transfer or disposition, provided that any such transfer or disposition meets the foregoing requirements.

Distributions on the Securities

Distributions that are characterized as dividends for Philippine tax purposes will be subject to final withholding tax at the rate of (i) 10% if the Securityholder is a Philippine citizen or resident alien or (ii) 20% if the Securityholder is a non-resident alien engaged in trade or business within the Philippines. A non-resident alien not engaged in trade or business within the Philippines is subject to final withholding tax at the rate of 25% regardless of whether the Distributions are characterized as dividends or interest or other fixed or determinable periodic or casual gains or profits. Distributions received by domestic corporations and resident foreign corporations if regarded as dividends for Philippine tax purposes are not subject to Philippine tax. A non-resident foreign corporation is generally taxable on all gross income received from all sources within the Philippines at the rate of 30%; however, if Distributions received by non-resident foreign corporations are regarded as dividends for Philippine tax purposes, they may be subject to final withholding tax at the rate of 15%, provided that the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign-sourced dividends or allows a credit against the tax due from the non-resident foreign corporation, in which case taxes are deemed to have been paid in the Philippines equivalent to 15%, representing the difference between the regular income tax rate of 30% and the 15% tax rate on dividends.

On the other hand, the tax treatment of interest income generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), long-term deposits or investment certificates, currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business within the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as "residents" in respect of taxation of Philippine-sourced income). Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 20%-35% effective January 1, 2018 until

December 31, 2022 and 15%-35% effective January 1, 2023 for individuals, and 30% for domestic and resident foreign corporations), subject to the withholding by the issuer of an amount equivalent to 20% of such interest, which shall be creditable against the income tax liability of the resident for the relevant taxable year.

Interest on debt instruments received by non-residents will generally be subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 20%, if the holder is a non-resident foreign corporation on the assumption that the debt instrument is a "foreign loan" granted by such non-resident foreign corporation. "Foreign loans" are defined as loan contracts, including all types of debt instrument, whether in kind or in cash, which are payable in a currency other than the Philippine Peso, entered into by a Philippine resident, corporate or otherwise, with a non-resident. Distributions will be taxed in the manner and at the rate described above if they are characterized as interest. The tax withheld constitutes a final settlement of Philippine tax liability in respect of such interest or dividend income earned by the non-resident individual not engaged in trade or business within the Philippines or by the non-resident foreign corporation. For the purpose of implementing these rules, the Company will determine the holder of the Securities based on the records of the Registrar.

The Company, as required by the Philippine Tax Code, will withhold and make payment of the applicable withholding tax described above. However, the Company shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amount received by Securityholders equals the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See "Terms and Conditions of the Securities — Taxation and Gross-up."

The abovementioned tax rates are without prejudice to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of the non-resident holder. Most tax treaties to which the Philippines is a party provide for a reduced tax rate of 15% in cases where the interest or dividend arises in the Philippines and is paid to a resident of the other contracting state. In addition, some treaties provide that the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonded indebtedness or in the case of a dividend, where the recipient of the dividend beneficially owns at least 10% or 25% of the issuer, depending on which treaty applies. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest or dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing or dividend-earning interest is effectively connected with such permanent establishment.

The Philippine tax authorities have prescribed certain procedures for availment of tax treaty relief on interest and dividends under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest and dividends shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (CORTT) Form by the non-resident before interest is or dividends are credited or paid.

The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payer, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within 30 days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes; for dividend purposes, the CORTT Form shall be valid for 2 years from its date of issuance.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Company, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax emption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate or ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Company withheld taxes, or withheld the regular rate of tax imposed pursuant to the Philippine Tax Code on interest or dividends, as applicable, the concerned holder of Securities may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty. However, because the refund process in the Philippines could be cumbersome, requiring the filing of an administrative claim and the possible filing of a judicial appeal, it may be impractical to pursue such a refund.

Sale or Other Disposition of the Securities

A holder of a Security will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Securities in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Securities.

Under the Philippine Tax Code, gains from the sale, barter, exchange or other disposition of shares of stock held in domestic corporations that are not traded through the local stock exchange are generally considered as capital gains and subject to tax at the flat rate of 15% of the net capital gains realised during the taxable year. This rate applies to capital gains realized by Philippine citizens, resident aliens, non-resident aliens (whether or not engaged in trade or business within the Philippines), domestic corporations, resident foreign corporations and non-resident foreign corporations. Accordingly, if the Securities are regarded as "shares of stock" for Philippine tax purposes, capital gains tax will be payable on the sale or disposition of the Securities. Gains from the sale of shares of stock in a domestic corporation are treated as derived entirely from a source within the Philippines, regardless of where the shares are sold.

Under Section 32(B)(7)(g) of the Philippine Tax Code, gains realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificate of indebtedness ("**Long-Term Bonds**") are exempt from income tax. Accordingly, if the Securities are regarded as Long-Term Bonds for Philippine tax purposes, gains realized from the sale or transfer of the Securities will be exempt from Philippine income tax.

If the Securities are not regarded as Long-Term Bonds for Philippine tax purposes, the tax treatment of gains from the sale or transfer of the Securities will generally depend on whether the relevant Securityholder is a resident or a non-resident for Philippine tax purposes. Any gain realized by residents from the sale or transfer of debt instruments forms part of their taxable income and is subject to ordinary income tax rates (at graduated rates from 20%-35% for individuals and 30% for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 30%, if the holder is a non-resident foreign corporation.

Value-Added Tax

The transfer of the Securities in the Philippines by dealers in securities will be subject to value-added tax at the rate of 12% on the gross receipts they derive from the sale or exchange of the Securities. For dealers in securities, the term "gross receipts" means gross selling price less cost of the securities sold.

Estate and Donor's Tax

Securities issued by a corporation organized or constituted in the Philippines in accordance with Philippine laws are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and donor's taxes.

The transfer of the Securities by inheritance, whether the deceased is a Philippine resident or a non-Philippine resident, shall be subject to an estate tax which is levied on the net estate of the deceased at a fixed rate of 6%. The transfer of the Securities by donation shall subject the Securityholder to donor's tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gift made during the calendar year, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Securities, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

Singapore Taxation

The disclosure below is on the assumption that the IRAS regards the Securities as "debt securities" for the purposes of the ITA and that distribution payments made under the Securities will be regarded as interest payable on indebtedness and holders thereof may therefore enjoy the tax concessions and exemptions available for qualifying debt securities, provided that the other conditions for the qualifying debt securities scheme are satisfied. If the Securities are not regarded as "debt securities" for the purposes of the ITA and/or any distribution payment made under the Securities is not regarded as interest payable on indebtedness and/or holders thereof are not eligible for the tax concessions under the qualifying debt securities scheme, the tax treatment to holders may differ. Investors and holders of the Securities should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Securities.

Interest and other payments

Subject to the following paragraphs, under Section 12(6) of the ITA, the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Such payments, where made to a person not known to the paying party to be a resident in Singapore for tax purposes, are generally subject to withholding tax in Singapore. The rate at which tax is to be withheld for such payments (other than those subject to the 15% final withholding tax described below) to non-resident persons (other than non-resident individuals) is currently 17%. The applicable rate for non-resident individuals is currently 22%. However, if the payment is derived by a person not resident in Singapore otherwise than from any trade, business, profession or vocation carried on or exercised by such person in Singapore and is not effectively connected with any permanent establishment in Singapore of that person, the payment is subject to a final withholding tax of 15%. The rate of 15% may be reduced by applicable tax treaties.

Certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including:

(a) interest from debt securities derived on or after January 1, 2004;

(b) discount income (not including discount income arising from secondary trading) from debt securities derived on or after February 17, 2006; and

(c) prepayment fee, redemption premium or break cost from debt securities derived on or after February 15, 2007,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

References to "break cost", "prepayment fee" and "redemption premium" in this Singapore tax disclosure have the same meaning as defined in the ITA.

The terms "break cost", "prepayment fee" and "redemption premium" are defined in the ITA as follows:

(a) "break cost" means, in relation to debt securities, qualifying debt securities or qualifying project debt securities, any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "prepayment fee" means, in relation to debt securities, qualifying debt securities or qualifying project debt securities, any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "redemption premium" means, in relation to debt securities, qualifying debt securities or qualifying project debt securities, any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

As Australia and New Zealand Banking Group Limited, DBS Bank Ltd., Deutsche Bank AG, Singapore Branch, The Hongkong Shanghai Banking Corporation, Singapore Branch, Standard Chartered Bank and UBS AG Singapore Branch, comprising more than half of the lead managers, is each a Financial Sector Incentive (Bond Market) Company, Financial Sector Incentive (Capital Market) Company or Financial Sector Incentive (Standard Tier) Company (as defined in the ITA), the Securities issued as debt securities during the period from the date of this Offering Circular to December 31, 2018 would be "qualifying debt securities" for the purposes of the ITA, to which the following treatments shall apply:

(a) subject to certain prescribed conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the Monetary Authority of Singapore (the "**MAS**") may direct, of a return on debt securities for the Securities within such period as the MAS may specify and such other particulars in connection with the Securities as the MAS may require to the MAS and the inclusion by the Issuer in all offering documents relating to the Securities of a statement to the effect that where interest, discount income, prepayment fee, redemption premium or break cost from the Securities is derived by a person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption for qualifying debt securities shall not apply if the non-resident person acquires the Securities using funds from that person's operations through the Singapore permanent establishment), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Specified Income**") from the Securities paid by the Issuer and derived by a holder who is not resident in Singapore and who (i) does not have any permanent establishment in Singapore or (ii) carries on any operation in Singapore through a permanent establishment in Singapore but the funds used by that person to acquire the Securities are not obtained from such operation in Singapore, are exempt from Singapore tax;

(b) subject to certain conditions having been fulfilled (including the furnishing by the Issuer, or such other person as the MAS may direct, of a return on debt securities for the Securities within such period as the MAS may specify and such other particulars in connection with the Securities as the MAS may require to the MAS), Specified Income from the Securities paid by the Issuer and derived by any company or body of persons (as defined in the ITA) in Singapore is generally subject to tax at a concessionary rate of 10%; and

(c) subject to: (i) the Issuer including in all offering documents relating to the Securities a statement to the effect that any person whose interest, discount income, prepayment fee, redemption premium or break cost (i.e. the Specified Income) derived from the Securities is not exempt from tax shall include such income in a return of income made under the ITA; and (ii) the Issuer, or such other person as the MAS may direct, furnishing to the MAS a return on debt securities for the Securities within such period as the MAS may specify and such other particulars in connection with the Securities as the MAS may require,

payments of Specified Income derived from the Securities are not subject to withholding of tax by the Issuer.

However, notwithstanding the foregoing:

(d) if during the primary launch of the Securities, the Securities are issued to fewer than four (4) persons and 50% or more of the issue of the Securities is held beneficially or funded, directly or indirectly, by a related party or related parties of the Issuer, the Securities would not qualify as "qualifying debt securities"; and

(e) even though the Securities are "qualifying debt securities", if, at any time during the tenure of the Securities, 50% or more of the issue of the Securities which are outstanding at any time during the life of their issue is held beneficially or funded, directly or indirectly, by any related party(ies) of the Issuer, Specified Income derived from the Securities held by: (i) any related party of the Issuer; or (ii) any other person who acquires the Securities with funds obtained, directly or indirectly, from any related party of the Issuer,

shall not be eligible for the tax exemption or concessionary rate of tax as described above.

The term "related party", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

Notwithstanding that the Issuer is permitted to make payments of Specified Income in respect of the Securities without deduction or withholding for tax under Section 45 or Section 45A of the ITA, any person whose Specified Income (whether it is interest, discount income, prepayment fee, redemption premium or break cost) derived from the Securities is not exempt from tax is required to include such income in a return of income made under the ITA.

Capital Gains

Any gains considered to be in the nature of capital made from the sale of the Securities will not be taxable in Singapore. However, any gains derived by any person from the sale of the Securities which are gains from any trade, business, profession or vocation carried on by that person, if accruing in or derived from Singapore, may be taxable as such gains are considered revenue in nature.

Securityholders who adopt or are adopting Singapore Financial Reporting Standard 39 — Financial Instruments: Recognition and Measurement ("**FRS 39**") or Singapore Financial Reporting Standard 109 — Financial Instruments ("**FRS 109**"), may for Singapore income tax purposes be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Securities, irrespective of disposal, in accordance with FRS 39 or FRS 109. See "— Adoption of FRS 39 and FRS 109 treatment for Singapore income tax purposes".

Adoption of FRS 39 and FRS 109 treatment for Singapore income tax purposes

Section 34A of the ITA provides for the tax treatment for financial instruments in accordance with FRS 39 (subject to certain exceptions and "opt-out" provisions) to taxpayers who are required to comply with FRS 39 for financial reporting purposes. The IRAS has issued a circular entitled "Income Tax Implications arising from the adoption of FRS 39 — Financial Instruments: Recognition and Measurement".

FRS 109 is mandatorily effective for annual periods beginning on or after January 1, 2018, replacing FRS 39. Section 34AA of the ITA requires taxpayers who comply or who are required to comply with FRS 109 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109, subject to certain exceptions. The IRAS has also issued a circular entitled "Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 — Financial Instruments".

Holders of the Securities who may be subject to the tax treatment under sections 34A or 34AA of the ITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Securities.

Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after February 15, 2008.

CLEARANCE AND SETTLEMENT OF THE SECURITIES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Company believes to be reliable, but neither the Company nor any of the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Securities and transfers of the Securities associated with secondary market trading.*

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book- entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant institution's rules and procedures.

Registration and Form

Book-entry interests in the Securities held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in Securities will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Securities in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Securities, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of Securities registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or, if individual Certificates are issued in the limited circumstances described under "The Global

Certificate — Registration of Title," holders of Securities represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Company for holders of interests in the Securities holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect to the Securities; however, holders of book-entry interests in the Securities may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

Upon their original issue, the Securities will be in global form represented by the Global Certificate. Interests in the Securities will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Securities through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Securities will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Securities through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

GENERAL

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Securities among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

GENERAL

The Joint Lead Managers have agreed, severally and not jointly, pursuant to a Subscription Agreement dated January 11, 2018 (the "**Subscription Agreement**") between the Company and the Joint Lead Managers and subject to the satisfaction of certain conditions, to procure subscriptions and payment for the aggregate principal amount of the Securities and the Company has agreed to sell to such Joint Lead Manager, the principal amount of the Securities set forth opposite such Joint Lead Manager's name:

Joint Lead Manager	Principal amount of Securities
The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch	US$83,333,333.35
Australia and New Zealand Banking Group Limited	US$83,333,333.33
DBS Bank Ltd.	US$83,333,333.33
Deutsche Bank AG, Singapore Branch	US$83,333,333.33
Standard Chartered Bank	US$83,333,333.33
UBS AG Singapore Branch	US$83,333,333.33
Total	**US$500,000,000**

The Subscription Agreement provides that the Company will indemnify the Joint Lead Managers against certain liabilities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Company.

The Joint Lead Managers and their affiliates are full service financial institutions that have performed and may perform in the future various financial advisory, securities trading, investment management, principal investment, hedging, financing, brokerage, investment banking and commercial banking services for the Company and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Company, and/or its affiliates in the ordinary course of their business. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Company.

The Joint Lead Managers or certain of their affiliates may purchase the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Company or its subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities). The Joint Lead Managers have entered into certain arrangements with BPI Capital Corporation and China Bank Capital Corporation (the "**Domestic Lead Managers**") in connection with the sale of the Securities in the Philippines, for which the Domestic Lead Managers will receive customary fees.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in

which such offer or invitation is not authorized. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Company in such jurisdiction.

SELLING RESTRICTIONS

General

None of the Company or the Joint Lead Managers makes any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Company that would permit a public offering of the Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

Each of the Joint Lead Managers will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Offering Circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Joint Lead Managers will also ensure that no obligations are imposed on the Company in any such jurisdiction as a result of any of the foregoing actions. The Company will have no responsibility for, and the Joint Lead Managers will not obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the Securities other than as contained in, or which is consistent with, the Offering Circular or any amendment or supplement to it.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration or in a transaction not subject to the registration requirements of the Securities Act. There will be no public offering of the securities in the United States. The Securities are being offered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

Hong Kong

The contents of this Offering Circular have not been reviewed by any governmental or regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Please note that (1) shares may not be offered or sold in Hong Kong by means of this Offering Circular or any document other than to "professional investors" within the meaning of Part I of Schedule I to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and any rules made thereunder, or in circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the "**CO**") or which do not constitute an offer or invitation to the public for the purposes of the CO and/or the SFO, and (2) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors within the meaning of the SFO and any rules made thereunder.

Singapore

This Offering Circular has not been registered as a prospectus with the MAS, and the Securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased in reliance of an exemption under Section 274 or 275 of the SFA, the Securities shall not be sold within the period of six months from the date of the initial acquisition of the Securities, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore (the "**SFR**").

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Rights Share pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) pursuant to Section 276(7) of the SFA; or

(5) pursuant to Regulation 32 of the SFR.

United Kingdom

Each of the Joint Lead Managers represents, warrants and agrees that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Philippines

Under Republic Act No. 8799, known as the Securities Regulation Code of the Philippines (the "**Philippine SRC**"), and its implementing rules, securities, such as the Securities, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The Securities are being offered in the Philippines to not more than nineteen (19) non-qualified buyers and to any number of qualified buyers as defined in the Code. The offer and sale of the Securities qualify as an exempt transaction pursuant to sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the Securities in the Philippines qualify as an exempt transaction under the Code is not required to be, and has not been, obtained.

THE SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE SEC UNDER THE CODE, ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

EEA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made or will not make an offer of Securities which are subject of the offering contemplated by the Offering Circulars to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Securities to the public in that Relevant Member State:

i. at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

ii. at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Lead Managers; or

iii. at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities referred to in (i) to (iii) above shall require the Company or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Securities...to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

PRIIPs Regulation/Prospectus Directive/Prohibition of sales to EEA retail investors

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

LEGAL MATTERS

Certain legal matters as to Philippine law will be passed upon for the Company by Picazo Buyco Tan Fider & Santos and for the Joint Lead Managers by Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW). Certain legal matters as to the laws of Singapore will be passed upon for the Joint Lead Managers by WongPartnership LLP. Certain legal matters as to the laws of England and Wales will be passed upon for the Trustee by Baker & McKenzie.Wong & Leow and for the Joint Lead Managers by Latham & Watkins.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Company prepared in accordance with PFRS as of and for the years ended December 31, 2014, 2015 and 2016 and the reviewed consolidated interim financial statements of the Company for as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017 included in this Offering Circular have been audited by R.G. Manabat & Co., a member firm of KPMG, as indicated in their report with respect thereto included herein.

GENERAL INFORMATION

(1) The Company was incorporated under the laws of the Philippines in 1966. The Company's registered office is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines.

(2) **Available Documents**: Copies of the Company's articles of incorporation, the annual reports of the Company for the years ended December 31, 2014, 2015 and 2016, and copies of the Trust Deed and the Agency Agreement will be available for inspection by any Securityholder during usual business hours at the specified office of the Company at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines, so long as any of the Securities is outstanding.

(3) **Clearing of the Securities**: The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 174085854. The International Securities Identification Number (ISIN) for the Securities is XS1740858540.

(4) **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Securities. The issue of the Securities was authorised by resolutions of the Executive Committee of the Issuer dated January 8, 2018.

(5) **Listing of Securities**: Approval in-principle has been obtained from the SGX-ST for permission to deal in and for quotation of any Securities which are agreed at the time of issue thereof to be so listed on the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Securities will be approved. Admission to the Official List of the SGX-ST and quotation of the Securities on the SGX-ST is not to be taken as an indication of the merits of the Securities or the Company. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for individual certificates, and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in Singapore where the individual certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for individual certificates, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual certificates, including details of the paying agent in Singapore.

(6) **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no material adverse change in the Company's financial position or prospects since September 30, 2017.

(7) **Litigation**: Except as disclosed in this Offering Circular, the Company is not involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant adverse effect on the financial position or trading position of the Company nor is the Company aware that any such proceedings are pending or threatened.

(8) **Trustee's action**: The Trustee may rely without liability to the Securityholders on any certificate prepared by the officers of the Company and accompanied by a certificate or report prepared by an internationally recognized firm of accountants pursuant to the Terms and Conditions of the Securities and/or the Trust Deed, whether or not addressed to the Trustee, and whether or not the internationally recognized firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Securityholders.

GLOSSARY

TERM	DEFINITION
APM	Malaysian automatic pricing mechanism.
bbl	Barrel.
BIR	Philippine Bureau of Internal Revenue.
Black Products	Fuel oil and asphalts.
BSP	Bangko Sentral ng Pilipinas.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Clearstream, Luxembourg	Clearstream Banking, SA.
CODO	Company-owned-dealer-operated service stations.
DENR	Philippine Department of Environment and Natural Resources.
DENR-EMB	DENR-Environment Management Bureau.
DODO	Dealer-owned-dealer-operated service stations.
DOE	Philippine Department of Energy.
DTI	Philippine Department of Trade and Industry.
Euroclear	Euroclear Bank SA/NV.
IMS	Integrated Management System.
Innospec	Innospec, Limited.
ISO	International Organization for Standardization.
KLIA	Kuala Lumpur International Airport.
KPC	Kuwait Petroleum Corporation.
LPG	Liquefied petroleum gas.
LPS	Loss prevention system.
LSWR	Low-sulfur waxy residue.
MOPS	Mean of Platts Singapore. The daily average of all trading transactions between a buyer and a seller of petroleum products as assessed and summarized by Standard and Poor's Platts, a Singapore-based market wire service.
MNHPI	Manila North Harbour Port, Inc.
NVRC	New Ventures Realty Corporation.
Ovincor	Overseas Ventures Insurance Corporation Ltd.
PAHL	Petrochemical Asia (HK) Ltd.
PCERP	Petron Corporation Employees' Retirement Plan.
Petrogen	Petrogen Insurance Corporation.
Petron Bataan Refinery	The Company's refinery located in Limay, Bataan, Philippines.
Petrophil	Petrophil Corporation.
PFC	Petron Freeport Corporation.

TERM	DEFINITION
PFI	Petron Foundation Inc.
PFISB	Petron Fuel International Sdn. Bhd.
PFRS	Philippine Financial Reporting Standards.
Philippine SEC	The Securities and Exchange Commission of the Philippines.
Philippine SRC	The Securities Regulation Code of the Philippines.
Philippine Tax Code	Philippine National Internal Revenue Code of 1997, as amended.
PMC	Petron Marketing Corporation.
PMRMB	Petron Malaysia Refining & Marketing Berhad.
PNOC	Philippine National Oil Company.
POGI	Petron Oil & Gas International Sdn Bhd.
POGM	Petron Oil & Gas Mauritius Ltd.
Port Dickson Refinery	The Company's refinery located in Port Dickson, Malaysia.
POS	Point of sale.
PPI	Philippine Polypropylene Inc.
PSE	The Philippine Stock Exchange, Inc.
PSTPL	Petron Singapore Trading Pte. Ltd.
RIHL	Robinson International Holdings Limited
RMP-2	The second phase of the Company's Refinery Master Plan project.
Saudi Aramco	Saudi Arabian Oil Company.
Saudi CP	Saudi Aramco contract prices.
SEA BV	SEA Refinery Holdings B.V.
Securities Act	U.S. Securities Act of 1933, as amended.
Series 2 Preferred Shares	the 10,000,000 cumulative, non-voting, non-participating and non-convertible perpetual series 2 preferred shares issued by the Company on November 3, 2014 at an issue price of ₱1,000.00.
Series 2A Preferred Shares	the sub-series A of the Series 2 Preferred Shares.
Series 2B Preferred Shares	the sub-series B of the Series 2 Preferred Shares.
SMC	San Miguel Corporation.
SRC	SEA Refinery Corporation.
SSHE	Safety, security, health and the environment.
Philippine Tax Code	Philippine National Internal Revenue Code of 1997, as amended.
TCCs	Tax Credit Certificates.
VAT	Value-added tax.
White Products	Diesel, gasoline, jet fuel, kerosene and LPG.

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REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Petron Corporation and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

PRC-BOA Accreditation No. 0003, with extended validity until April 30, 2017
pursuant to Board Resolution No. 37 s. of 2017
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

Key Audit Matters

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

Revenue Recognition (P343,840 million)
Refer to Note 3, *Significant Accounting Policies* and Note 37, *Segment Information* to the consolidated financial statements.

The risk
Revenue is an important measure used to evaluate the performance of the Group. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Group have been transferred. Revenue generated from the sale of petroleum products is susceptible to manipulation as the pricing is dependent on contractual terms rather than publicly available pricing. Whilst revenue recognition and measurement is not complex for the Group, voluminous sales transactions and the sales target which forms part of the Group's key performance measure create incentive to record revenue incorrectly.

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

- We tested operating effectiveness of the key controls over revenue recognition.

- We checked on a sampling basis, the sales transactions to the delivery documents for the year.

- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess whether these transactions are recorded in the correct financial year.

- We tested journal entries posted to revenue accounts, including any unusual or irregular items.

- We tested credit notes recorded after the financial year to identify potential reversals of revenue inappropriately recognized in the current financial year.

Valuation of Inventories (P44,147 million)
Refer to Note 3, *Significant Accounting Policies,* Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 9, *Inventories* to the consolidated financial statements.

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

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

- We obtained and reviewed the calculation of write down of the Group's raw materials and finished goods based on the net realizable value of finished goods at yearend.

- For raw materials, projected production yield was used to estimate the cost of conversion for the raw materials as at yearend. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated cost of finished goods to the net realizable value to determine any potential write-down.

- For finished goods, we assessed the reasonableness of estimated selling prices by checking various products' sales invoices issued around and after yearend. Any write-down is computed based on the difference in the net realizable value against the cost of inventory held at yearend.

Valuation of goodwill (P7,480 million)
Refer to Note 3, *Significant Accounting Policies,* Note 4, *Significant Accounting Judgments, Estimates and Assumptions* and Note 13, *Investment in Shares of Stock of Subsidiaries and Goodwill* to the consolidated financial statements.

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

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

- We tested the integrity of the discounted cash flow model. This involved using our own valuation specialist to assist us in evaluating the models used and assumptions applied and comparing these assumptions to external data, where applicable. The key assumptions include sales volume, selling price and gross profit margin.

- We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, competition, cost of inflation and discount rates, as well as performing break-even analysis on the assumptions.

- We compared the sum of the discounted cash flows to the Group's market capitalization to assess the reasonableness of those cash flows.

- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-A, Group A, valid until April 30, 2017
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904948MD
Issued January 3, 2017 at Makati City

March 14, 2017
Makati City, Metro Manila

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

		December 31	
	Note	**2016**	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 34, 35*	**P17,332**	P18,881
Financial assets at fair value through profit or loss	*6, 34, 35*	**221**	509
Available-for-sale financial assets	*7, 34, 35*	**71**	233
Trade and other receivables - net	*4, 8, 28, 34, 35*	**31,548**	30,749
Inventories	*4, 9*	**44,147**	30,823
Other current assets	*14*	**32,499**	34,530
Total Current Assets		**125,818**	115,725
Noncurrent Assets			
Available-for-sale financial assets	*7, 34, 35*	**408**	388
Property, plant and equipment - net	*4, 11, 37*	**176,604**	161,597
Investment in shares of stock of an associate	*4, 10*	**1,883**	1,814
Investment property - net	*12*	**91**	112
Deferred tax assets - net	*4, 27*	**194**	211
Goodwill - net	*4, 13*	**7,480**	7,694
Other noncurrent assets - net	*4, 14, 28, 34, 35*	**6,415**	6,726
Total Noncurrent Assets		**193,075**	178,542
		P318,893	P294,267
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*15, 34, 35*	**P90,366**	P99,481
Liabilities for crude oil and petroleum products	*16, 28, 34, 35*	**29,966**	16,271
Trade and other payables	*17, 28, 30, 34, 35*	**16,161**	9,347
Derivative liabilities	*34, 35*	**778**	603
Income tax payable		**626**	183
Current portion of long-term debt - net	*18, 34, 35*	**20,911**	694
Total Current Liabilities		**158,808**	126,579
Noncurrent Liabilities			
Long-term debt - net of current portion	*18, 34, 35*	**58,941**	71,726
Retirement benefits liability	*30*	**3,315**	5,509
Deferred tax liabilities - net	*27*	**5,726**	4,638
Asset retirement obligation	*4, 19*	**2,324**	1,809
Other noncurrent liabilities	*20, 34, 35*	**959**	906
Total Noncurrent Liabilities		**71,265**	84,588
Total Liabilities		**230,073**	211,167

Forward

	Note	December 31 2016	2015
Equity Attributable to Equity Holders of the Parent Company	*21*		
Capital stock		**P9,485**	P9,485
Additional paid-in capital		**19,653**	19,653
Undated subordinated capital securities		**30,546**	30,546
Retained earnings		**42,011**	41,712
Equity reserves		**(7,204)**	(8,767)
Treasury stock		**(10,000)**	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		**84,491**	82,629
Non-controlling Interests	*13*	**4,329**	471
Total Equity		**88,820**	83,100
		P318,893	P294,267

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Million Pesos, Except Per Share Data)

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Million Pesos)

	Note	**2016**	2015	2014
NET INCOME		**P10,822**	P6,270	P3,009
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Equity reserve for retirement plan	*30*	**2,647**	(3,112)	(4,656)
Share in other comprehensive income (loss) of an associate and joint ventures	*10*	**3**	(6)	-
Income tax benefit (expense)		**(794)**	935	1,396
		1,856	(2,183)	(3,260)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Exchange differences on translation of foreign operations		**523**	(3,748)	(1,475)
Unrealized fair value losses on available-for-sale financial assets	7	**(2)**	(1)	(25)
Income tax benefit		**1**	-	2
		522	(3,749)	(1,498)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**2,378**	(5,932)	(4,758)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - Net of tax		**P13,200**	P338	(P1,749)
Attributable to:				
Equity holders of the Parent Company		**P12,742**	P390	(P1,368)
Non-controlling interests		**458**	(52)	(381)
		P13,200	P338	(P1,749)

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Million Pesos)

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

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company										
				Undated	Retained Earnings		Equity Reserves					
		Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2015		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P -	P97,332	P16,360	P113,692
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(3,041)	-	(3,041)	(707)	(3,748)
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(2,180)	-	-	(2,180)	3	(2,177)
Share in other comprehensive loss of an associate		-	-	-	-	-	(6)	-	-	(6)	-	(6)
Other comprehensive loss		-	-	-	-	-	(2,186)	(3,042)	-	(5,228)	(704)	(5,932)
Net income for the year		-	-	-	-	5,618	-	-	-	5,618	652	6,270
Total comprehensive income (loss) for the year		-	-	-	-	5,618	(2,186)	(3,042)	-	390	(52)	338
Cash dividends	*21*	-	-	-	-	(1,114)	-	-	-	(1,114)	(567)	(1,681)
Distribution paid	*21*	-	-	-	-	(3,607)	-	-	-	(3,607)	-	(3,607)
Redemption of preferred shares	*13, 21*	-	-	-	-	-	-	-	(10,000)	(10,000)	(15,642)	(25,642)
Reversal of appropriations - net		-	-	-	(89)	89	-	-	-	-	-	-
Acquisition of additional interest in a subsidiary		-	-	-	-	-	-	(372)	-	(372)	372	-
Transactions with owners		-	-	-	(89)	(4,632)	-	(372)	(10,000)	(15,093)	(15,837)	(30,930)
As of December 31, 2015		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company									
				Undated	Retained Earnings		Equity Reserves				
	Note	Capital Stock	Additional Paid-in Capital	Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
As of January 1, 2014		P9,475	P9,764	P30,546	P25,171	P17,487	P2,242	(P721)	P93,964	P17,924	P111,888
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(23)	(23)	-	(23)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,405)	(1,405)	(70)	(1,475)
Equity reserve for retirement plan - net of tax		-	-	-	-	-	(3,260)	-	(3,260)	-	(3,260)
Other comprehensive loss		-	-	-	-	-	(3,260)	(1,428)	(4,688)	(70)	(4,758)
Net income (loss) for the year		-	-	-	-	3,320	-	-	3,320	(311)	3,009
Total comprehensive income (loss) for the year		-	-	-	-	3,320	(3,260)	(1,428)	(1,368)	(381)	(1,749)
Cash dividends	*21*	-	-	-	-	(1,583)	-	-	(1,583)	-	(1,583)
Distribution paid	*21*	-	-	-	-	(3,580)	-	-	(3,580)	-	(3,580)
Issuance of preferred shares	*21*	10	9,889	-	-	-	-	-	9,899	-	9,899
Deductions from non-controlling interests and others		-	-	-	-	-	-	-	-	(1,183)	(1,183)
Transactions with owners		10	9,889	-	-	(5,163)	-	-	4,736	(1,183)	3,553
As of December 31, 2014		P9,485	P19,653	P30,546	P25,171	P15,644	(P1,018)	(P2,149)	P97,332	P16,360	P113,692

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Million Pesos)

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

Forward

	Note	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**P226,360**	P222,099	P360,309
Payments of:				
Loans		**(230,924)**	(256,732)	(320,949)
Cash dividends and distributions	21	**(5,537)**	(5,517)	(5,676)
Purchase of non-controlling interest in a subsidiary	13	**(1,921)**	-	-
Proceeds from issuance of Parent Company's preferred shares	21	**-**	-	9,899
Redemption of preferred shares	13, 21	**-**	(25,642)	-
Increase (decrease) in other noncurrent liabilities		**(3)**	(551)	1,582
Net cash flows provided by (used in) financing activities		**(12,025)**	(66,343)	45,165
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**372**	746	112
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,549)**	(71,721)	40,204
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**18,881**	90,602	50,398
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	**P17,332**	P18,881	P90,602

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

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

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

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

With more than 2,200 service stations and various industrial accounts, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and autoLPG to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network.

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

In line with efforts to increase its presence in the regional market, Petron exports various products to Asia-Pacific countries. In March 2012, Petron increased its regional presence when it acquired an integrated refining, distribution and marketing business in Malaysia. Petron Malaysia includes an 88,000 barrel-per-day refinery, 10 terminals, 7 storage facilities and network of nearly 580 service stations.

The Parent Company is a public company under Section 17.2 of Securities Regulation Code and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE). As of December 31, 2016, the Parent Company's public float stood at 23.84%.

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

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

2. Basis of Preparation

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 14, 2017.

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

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

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

Basis of Consolidation

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

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

[(a)] Ownership represents 100% of PGL's common shares.
[(b)] In July 2016, ownership interest increased to 100% (Note 13a).

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

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

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

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

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

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

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

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

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

Petron Finance (Labuan) Limited is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a company incorporated in Hong Kong in March 2008. PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

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

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

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

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

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

Non-controlling interests represent the interests not held by the Parent Company in NVRC and PMRMB in 2016 and 2015, and PGL and PAHL in 2015.

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

3. Significant Accounting Policies

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

Certain comparative amounts in the consolidated statements of income have been reclassified as a result of a change in the classification of certain accounts during the current year.

Adoption of Amendments to Standards
The Group has adopted the following amendments to standards starting January 1, 2016 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Group's consolidated financial statements.

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

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

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

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

- *Annual Improvements to PFRS 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four standards. The following are the said improvements or amendments to PFRS, none of which has a significant impact on the Group's consolidated financial statements.

  - *Changes in method for disposal (Amendment to PFRS 5).* PFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations* is amended to clarify that:

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

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

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

  - *'Continuing Involvement' for Servicing Contracts (Amendments to PFRS 7).* PFRS 7 *Financial Instruments: Disclosures* is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

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

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

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

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

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

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

New or Revised Standards and Amendments to Standards Not Yet Adopted
A number of new or revised standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

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

To be Adopted 2017

- *Disclosure initiative (Amendments to PAS 7).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.

  The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

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

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

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

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

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

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

- *Annual Improvements to PFRS 2014 – 2016 Cycle.* This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRS effective for annual periods beginning on or after January 1, 2017, none of which has a significant effect on the consolidated financial statements of the Group:

  - *Clarification of the scope of the standard (Amendments to PFRS 12).* The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

To be Adopted 2018

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

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

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

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group is currently assessing the potential impact of PFRS 15 and plans to adopt this new standard on revenues on the required effective date.

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

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

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

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

To be Adopted 2019

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

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

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

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

  Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016 with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date of these amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Financial Assets and Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has no investments accounted for under this category as of December 31, 2016 and 2015.

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

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

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

Financial Liabilities

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

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

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

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

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

Debt Issue Costs

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

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

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

The Group has no derivatives that qualify for hedge accounting as of December 31, 2016 and 2015. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

- deliver cash or another financial asset to another entity;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Combination

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

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

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

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

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

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

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

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

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

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

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

Transactions under Common Control

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

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

Non-controlling Interests

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

Investment in Shares of Stock of an Associate

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

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

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

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

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

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

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

Interest in Joint Ventures

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

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI) and 50.00% joint venture interest in Terminal Bersama Sdn Bhd (TBSB), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, are accounted for under the equity method of accounting. The interest in joint ventures is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint ventures, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint ventures presented as part of "Other income (expenses) - others" account. As of December 31, 2016, the Group has capital commitments amounting to P2 and nil for TBSB and PDSI, respectively. The Group has no contingent liabilities in relation to its interest in these joint ventures.

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Buildings and improvements and related facilities	7 - 50
Refinery and plant equipment	5 - 33
Service stations and other equipment	2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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

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

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

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

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

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

Investment Property

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

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

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

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

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

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

Intangible Assets

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

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

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

	Number of Years
Software	5 - 10
Franchise fee	3 - 10

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

As of December 31, 2016 and 2015, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, Powerburn 2T and Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

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

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

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

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

Cylinder Deposits
The Parent Company purchases LPG cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Customer Loyalty Programme. Revenue is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

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

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

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

Leases

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Employee Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

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

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

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

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

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

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

Rent income recognized in the consolidated statements of income amounted to P1,139, P1,131 and P1,145 in 2016, 2015 and 2014, respectively (Note 23).

Rent expense recognized in the consolidated statements of income amounted to P1,293, P1,295 and P1,248 in 2016, 2015 and 2014, respectively (Note 23).

Evaluating Control over its Investees. Determining whether the Parent Company has control in an investee requires significant judgment. Although the Parent Company owns less than 50% of the voting rights of NVRC and PAHL, before the Parent Company acquired 100% equity interest in PAHL in 2016, management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

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

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

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

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from a variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

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

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

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

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

(a) there is a change of contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and

(d) there is a substantial change to the asset.

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

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

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2016, 2015 and 2014, the Group opted to continue claiming itemized standard deductions except for Petrogen and certain subsidiaries of NVRC such as Las Lucas Construction and Development Corporation (LLCDC), Parkville Estates and Development Corporation (PEDC), as they opted to apply OSD.

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

Estimates and Assumptions

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

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

Impairment losses on trade and other receivables amounted to P68, P154 and P2 in 2016, 2015 and 2014, respectively (Notes 8 and 23). Receivables written-off amounted to P97 in 2016 and P22 in 2015 (Note 8). In 2015, the Group reversed previously recognized impairment losses amounting to P7 while no such reversal was recognized in 2016 (Note 8).

The carrying amount of receivables amounted to P31,548 and P30,749 as of December 31, 2016 and 2015, respectively (Note 8).

Net Realizable Values of Inventories. In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P44,147 and P30,823 as of the end of 2016 and 2015, respectively (Note 9), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized an inventory write-down amounting to nil, P225 and P798 in 2016, 2015 and 2014, respectively (Note 9).

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

In 2016, 2015 and 2014, the Group provided an additional allowance for inventory obsolescence amounting to P327, P36 and P14, respectively (Note 9).

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

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

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

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

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

Accumulated depreciation and amortization of property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P75,258 and P67,715 as of December 31, 2016 and 2015, respectively (Notes 11, 12 and 14). Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P176,604 and P161,597 as of December 31, 2016 and 2015, respectively (Note 11). Investment property, net of accumulated depreciation, amounted to P91 and P112 as of December 31, 2016 and 2015, respectively (Note 12). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P208 and P232 as of December 31, 2016 and 2015, respectively (Note 14).

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

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

Estimated fair values of investment property amounted to P151 and P156 as of December 31, 2016 and 2015, respectively (Note 12).

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

The recoverable amount of goodwill arising from the acquisition of Petron Malaysia has been determined based on fair value less costs to sell and value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2016 and 2015 and discount rates of 5.8% and 7.0% in 2016 and 2015, respectively (Note 13).

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

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

No impairment losses were recognized in 2016, 2015 and 2014 in relation to the goodwill arising from the acquisition of Petron Malaysia which accounts for almost 99% of goodwill in the consolidated statements of financial position as of December 31, 2016 and 2015.

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

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

Deferred tax assets amounted to P194 and P211 as of December 31, 2016 and 2015, respectively (Note 27).

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

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

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

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

Retirement benefits costs recognized in profit or loss amounted to P579, P419 and P91 in 2016, 2015 and 2014, respectively. Remeasurement losses (gains) of the net defined retirement obligation amounted to (P2,647), P3,112 and P4,656 in 2016, 2015 and 2014, respectively. The retirement benefits liability amounted to P3,392 and P5,591 as of December 31, 2016 and 2015, respectively (Note 30).

Asset Retirement Obligation (ARO). The Group has an ARO arising from the refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.02% to 8.45% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,324 and P1,809 as of December 31, 2016 and 2015, respectively (Note 19).

5. Cash and Cash Equivalents

This account consists of:

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

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn annual interest (Note 26) at the respective short-term placement rates ranging from 0.03% to 4.50% in 2016, 0.05% to 5.00% in 2015 and 0.01% to 3.50% in 2014.

6. Financial Assets at Fair Value through Profit or Loss

This account consists of:

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

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

Changes in fair value recognized in 2016, 2015 and 2014 amounted to P10, P11 and P19, respectively (Note 26).

7. Available-for-Sale Financial Assets

This account consists of:

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

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

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

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

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

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

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

8. Trade and Other Receivables

This account consists of:

	Note	**2016**	2015
Trade	*34*	**P18,338**	P17,424
Related parties - trade	*28, 34*	**1,001**	877
Allowance for impairment loss on trade receivables		**(807)**	(824)
		18,532	17,477
Government		**7,441**	7,062
Related parties - non-trade	*28*	**5,127**	4,913
Others		**787**	1,605
Allowance for impairment loss on non-trade receivables		**(339)**	(308)
		13,016	13,272
	34, 35	**P31,548**	P30,749

Trade receivables are noninterest-bearing and are generally on a 45-day term.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P1,954 and P2,333 as of December 31, 2016 and 2015, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

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

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

A reconciliation of the allowance for impairment losses at the beginning and end of 2016 and 2015 is shown below:

	Note	**2016**	2015
Balance at beginning of year		**P1,230**	P1,109
Additions	*23*	**68**	154
Write off	*4*	**(97)**	(22)
Currency translation adjustment		**26**	(4)
Reversal of impairment losses	*4*	**-**	(7)
Balance at end of year		**1,227**	1,230
Less noncurrent portion for long-term receivables	*14*	**81**	98
		P1,146	P1,132

As of December 31, 2016 and 2015, the age of past due but not impaired trade accounts receivable is as follows (Note 34):

	Past Due but not Impaired				
	Within 30 days	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Total**
December 31, 2016					
Reseller	**P107**	**P8**	**P2**	**P10**	**P127**
Lubes	**1**	**-**	**6**	**-**	**7**
Gasul	**57**	**2**	**2**	**-**	**61**
Industrial	**15**	**9**	**95**	**263**	**382**
Others	**88**	**35**	**23**	**131**	**277**
	P268	**P54**	**P128**	**P404**	**P854**
December 31, 2015					
Reseller	P110	P7	P -	P -	P117
Lubes	2	-	6	-	8
Gasul	41	2	5	-	48
Industrial	19	6	111	231	367
Others	84	17	58	147	306
	P256	P32	P180	P378	P846

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

9. Inventories

This account consists of:

	2016	2015
Crude oil and others	**P24,474**	P13,383
Petroleum	**13,418**	11,661
Lubes, greases and aftermarket specialties	**2,754**	3,325
Materials and supplies	**3,501**	2,454
	P44,147	P30,823

The cost of these inventories amounted to P44,936 and P31,507 as of December 31, 2016 and 2015, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P1,906 and P2,798 as of December 31, 2016 and 2015, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P283,169, P311,526 and P451,318 in 2016, 2015 and 2014, respectively (Note 22).

Research and development costs (Note 23) on these products constituted the expenses incurred for internal projects in 2016 and 2015.

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2016 and 2015 follow:

	Note	**2016**	2015
Balance at beginning of year		**P684**	P1,224
Provisions due to:			
Write-downs	*4*	**-**	225
Obsolescence	*4*	**327**	36
Reversals		**(223)**	(798)
Currency translation adjustment		**1**	(3)
Balance at end of year		**P789**	P684

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

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

10. Investment in Shares of Stock of an Associate

This account consists of:

	2016	2015
Acquisition Cost		
Balance at beginning of year	**P1,405**	P880
Additions	**-**	525
Balance at end of year	**1,405**	1,405
Share in Total Comprehensive Income		
Balance at beginning of year	**409**	282
Share in net income during the year	**66**	133
Share in other comprehensive income (loss)	**3**	(6)
Balance at end of year	**478**	409
	P1,883	P1,814

Investment in shares of stock of an associate pertains to investment in Manila North Harbour Port Inc (MNHPI), a company incorporated in the Philippines.

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

In December 2014 and February 2015, the Parent Company advanced P175 and P525, respectively, as deposit for future subscription of MNHPI's shares.

Following the approval of the increase in the authorized capital stock of MNHPI by the SEC, Petron was issued stock certificate for 7,000,000 shares in December 2015, representing 35% of the increase in the authorized capital stock of MNHPI.

The cost of investment in MNHPI amounted to P1,405 as of December 31, 2016 and 2015.

Following are the condensed financial information of MNHPI as of and for the years ended December 31, 2016 and 2015:

	2016	2015
Percentage of ownership	**35%**	35%
Current assets	**P2,698**	P1,654
Noncurrent assets	**11,349**	10,743
Current liabilities	**(5,574)**	(2,088)
Noncurrent liabilities	**(4,102)**	(6,135)
Net assets	**P4,371**	P4,174
Sales	**P2,984**	P2,605
Net income	**P188**	P380
Other comprehensive income (loss)	**9**	(17)
Total comprehensive income	**P197**	P363
Share in net assets	**P1,530**	P1,461
Goodwill	**353**	353
Carrying amount of investment in shares of stock of an associate	**P1,883**	P1,814

11. Property, Plant and Equipment

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

	Buildings and Improvements and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction in-Progress	Total
Cost							
January 1, 2015	P28,330	P50,532	P16,142	P4,328	P14,275	P104,729	P218,336
Additions	263	592	410	574	211	14,338	16,388
Disposals/reclassifications	726	223	707	(100)	(133)	(2,138)	(715)
Currency translation adjustment	(1,071)	(1,562)	(1,029)	(99)	(1,079)	(344)	(5,184)
December 31, 2015	28,248	49,785	16,230	4,703	13,274	116,585	228,825
Additions	289	18,065	363	293	467	3,749	23,226
Disposals/reclassifications	34	94,310	(494)	(348)	186	(95,033)	(1,345)
Currency translation adjustment	332	103	73	4	77	18	607
December 31, 2016	**28,903**	**162,263**	**16,172**	**4,652**	**14,004**	**25,319**	**251,313**
Accumulated Depreciation and Amortization							
January 1, 2015	16,766	32,218	10,471	3,135	2,096	-	64,686
Additions	1,341	1,730	1,287	910	96	-	5,364
Disposals/reclassifications	(39)	(109)	(53)	(85)	-	-	(286)
Currency translation adjustment	(643)	(751)	(565)	(512)	(65)	-	(2,536)
December 31, 2015	17,425	33,088	11,140	3,448	2,127	-	67,228
Additions	1,255	5,010	1,192	655	134	-	8,246
Disposals/reclassifications	(85)	(20)	(369)	(477)	(61)	-	(1,012)
Currency translation adjustment	143	173	24	(97)	4	-	247
December 31, 2016	**18,738**	**38,251**	**11,987**	**3,529**	**2,204**	**-**	**74,709**
Carrying Amount							
December 31, 2015	P10,823	P16,697	P5,090	P1,255	P11,147	P116,585	P161,597
December 31, 2016	**P10,165**	**P124,012**	**P4,185**	**P1,123**	**P11,800**	**P25,319**	**P176,604**

No interest was capitalized in 2016. Interest capitalized in 2015 amounted to P2,914 and capitalization rate used for borrowings was at 6.77% (Note 18).

No impairment loss was required to be recognized in 2016, 2015 and 2014.

Capital Commitments
As of December 31, 2016, the Group has outstanding commitments to acquire property, plant and equipment amounting to P7,756.

12. Investment Property

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

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

The Group's investment property pertains to a property located in Tagaytay and parcels of land in various locations.

Estimated fair value of the Tagaytay property amounted to P44 as of December 31, 2016 and P22 as of December 31, 2015 based on the appraisal made in February 2017 and in 2012, respectively. The fair value was calculated using market approach.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2016 and 2015, the aggregate fair market values of the properties amounting to P107 and P134, respectively, determined by independent appraisers in 2013 using market approach, is higher than their carrying amount, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

The fair market value of investment property has been categorized as Level 3 in the fair value hierarchy.

13. Investment in Shares of Stock of Subsidiaries and Goodwill

The following are the major developments relating to the Parent Company's investment in shares of stock of subsidiaries:

a. *PAHL*

Although the Group owns less than half of the voting power of PAHL, prior to the acquisition of 100% equity interest in 2016, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. Accordingly, the Group consolidated PAHL beginning January 1, 2013.

On November 17, 2015, the Parent Company subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US$11,746,724 which effectively increased the Parent Company's ownership interest by 1.40% to 47.25%.

On March 18, 2016, the Parent Company subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US$27,644,540 which effectively increased the Parent Company's ownership from 47.25% to 50.26%.

On July 25, 2016, the Parent Company purchased the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares in PAHL for a total of 375,142,858 shares owned by PCERP for a total purchase price of P1,921. Petron's ownership interest in PAHL has increased from 50.26% to 100%.

As a result of the foregoing transactions, non-controlling interest in PAHL has been derecognized in 2016.

b. *PGL*

On various dates in 2015, the Parent Company subscribed to additional common shares of PGL as follows:

Date	No. of Shares	Amount Per Share (in US$)	Total (in US$)
March 13, 2015	9,354,136	1.00	9,354,136
April 13, 2015	1,710,231	1.00	1,710,231
May 13, 2015	1,067,462	1.00	1,067,462

PGL has issued an aggregate of 73,559,188 common shares from 2012 to 2014 with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US$1.00 per share. Consequently, non-controlling interest in PGL has been transferred to retained earnings attributable to the equity holders of the Parent Company.

As of December 31, 2016 and 2015, the Parent Company holds a total of 85,691,017 common shares in PGL representing 100% of the voting capital stock of PGL.

Goodwill

The movements and balances of goodwill as of and for the years ended December 31 are as follows:

	Note	2016	2015
Cost			
Balance at beginning of year		**P7,694**	P8,921
Translation adjustments		**84**	(1,227)
Balance at end of year		**7,778**	7,694
Less impairment loss during the year	*26*	**298**	-
Carrying Amount		**P7,480**	P7,694

Impairment of Goodwill from Petron Malaysia

Goodwill arising from the acquisition of Petron Malaysia, which accounts for 99% of total goodwill in the consolidated statements of financial position as of December 31, 2016 and 2015, is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination.

For the goodwill allocated to the POGI Group CGU, the recoverable amount of goodwill has been determined based on value in use (VIU). The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 3.0% in 2016 and 2015 and discount rates of 5.8% and 7.0% in 2016 and 2015, respectively. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (i.e., historical data). The discount rate is based on the weighted average cost of capital (WACC) using the Capital Asset Pricing Model (CAPM) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium.

The financial projection used in the VIU calculation is highly dependent on the following underlying key drivers of growth in profitability:

- *Sales Volume.* Majority of the sales volume is generated from the domestic market of the CGU. The growth in projected sales volume would mostly contributed from retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. Commercial sales refer to sales to industrial, wholesale, aviation and LPG accounts.

- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2017, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through overall growth in sales volume along with better sales mix and better cost management.

For purposes of growth rate sensitivity, a growth rate scenario of 2%, 3% and 4% is applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

No impairment losses were recognized in 2016, 2015 and 2014 in relation to the goodwill arising from the acquisition of Petron Malaysia.

Impairment of Goodwill from PAHL
For the goodwill allocated to PAHL, the recoverable amount of goodwill has been determined based on fair value less costs to sell. The fair value was calculated using market approach which has been categorized as Level 3 in the fair value hierarchy.

In 2016, the Group fully provided impairment loss for the goodwill arising from the acquisition of PAHL amounting to P298. The impairment loss is included under "Other income (expenses) - net" in the consolidated statements of income. No impairment losses were recognized in 2015 and 2014.

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

	December 31, 2016				December 31, 2015			
	NVRC	**PMRMB**	**PAHL**	**PGL**	NVRC	PMRMB	PAHL	PGL
Non-controlling Interests Percentage	**60.00%**	**26.60%**	**0.00%**	**0.00%**	60.00%	26.60%	52.75%	0.00%
Carrying amount of non-controlling interest	**P474**	**P3,855**	**P -**	**P -**	P417	P3,280	P898	(P4,030)
Current assets	**P308**	**P16,744**	**P94**	**P -**	P321	P11,836	P261	P -
Noncurrent assets	**5,296**	**12,601**	**2,753**	**-**	4,861	13,060	2,740	-
Current liabilities	**(205)**	**(13,946)**	**(9)**	**-**	(3,970)	(10,994)	(1,298)	-
Noncurrent liabilities	**(4,135)**	**(2,492)**	**-**	**-**	(43)	(3,141)	-	-
Net assets	**P1,264**	**P12,907**	**P2,838**	**P -**	P1,169	P10,761	P1,703	P -
Net income (loss) attributable to non-controlling interests	**P57**	**P725**	**(P60)**	**P -**	P58	P689	(P95)	P -
Other comprehensive income (loss) attributable to non-controlling interests	**P -**	**P28**	**P4**	**(P296)**	P -	(P488)	(P4)	(P212)
Sales	**P593**	**P87,124**	**P -**	**P -**	P542	P95,075	P -	P -
Net income (loss)	**P96**	**P2,727**	**(P314)**	**P -**	P97	P2,590	(P179)	(P1)
Other comprehensive income (loss)	**-**	**105**	**158**	**-**	-	(1,835)	73	(7)
Total comprehensive income (loss)	**P96**	**P2,832**	**(P156)**	**P -**	P97	P755	(P106)	(P8)
Cash flows provided by (used in) operating activities	**P222**	**P3,881**	**(P16)**	**P -**	P81	P3,956	(P558)	(P1)
Cash flows provided by (used in) investing activities	**(429)**	**(525)**	**-**	**-**	33	(1,218)	-	16,471
Cash flows provided by (used in) financing activities	**128**	**(3,221)**	**33**	**-**	-	(4,879)	507	(16,499)
Effects of exchange rate changes on cash and cash equivalents	**-**	**2**	**3**	**-**	-	(1)	-	-
Net increase (decrease) in cash and cash equivalents	**(P79)**	**P137**	**P20**	**P -**	P114	(P2,142)	(P51)	(P29)

14. Other Assets

This account consists of:

	Note	**2016**	2015
Current:			
Prepaid taxes		**P24,478**	P19,586
Input VAT		**6,097**	12,093
Prepaid expenses	*28*	**1,518**	2,282
Special-purpose fund		**140**	134
Tax recoverable		**-**	100
Others		**266**	335
		P32,499	P34,530
Noncurrent:			
Input VAT		**P2,229**	P79
Prepaid rent		**2,211**	2,228
Catalyst - net		**833**	947
Long-term receivables - net	*34, 35*	**205**	189
Noncurrent deposits	*34, 35*	**81**	82
Due from related parties	*28, 34, 35*	**-**	1,816
Others - net		**856**	1,385
		P6,415	P6,726

The "Noncurrent assets - others" account includes software, marketing assistance to dealers, other prepayments, franchise fees and other intangible assets amounting to P850 and P1,112 in 2016 and 2015, respectively, net of amortization of software, marketing assistance to dealers, franchise fees and other intangibles amounting to P214, P285 and P295 in 2016, 2015 and 2014, respectively. The amortization of prepaid rent amounted to P207, P189 and P243 in 2016, 2015 and 2014, respectively. Amortization of software, marketing assistance to dealers, franchise fees, other intangibles, prepaid rent and other prepayments is included as part of "Selling and administrative - depreciation and amortization" account in the consolidated statements of income (Notes 23 and 25). Amortization of catalyst and other prepayments amounting to P837 and P433 in 2016 and 2015, respectively is included as part of "Cost of goods sold - depreciation and amortization" account in the consolidated statements of income (Notes 22 and 25).

Included in "Due from related parties" was an advance made by the Parent Company to PCERP which was fully collected on July 26, 2016 (Notes 28 and 30).

15. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit-denominated loans obtained from various banks with maturities ranging from 7 to 120 days and annual interest ranging from 2.85% to 6.22% in 2016 and 2.75% to 6.20% in 2015 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 9) and working capital requirements.

Interest expense on short-term loans amounted to P2,323, P3,284 and P3,302 in 2016, 2015 and 2014, respectively (Note 26).

16. Liabilities for Crude Oil and Petroleum Products

This account pertains to liabilities to suppliers of crude oil, petroleum and other products that are noninterest-bearing and generally settled on a 30-day term. Details of the supply agreement in relation to importations of crude oil requirements of the Group are disclosed in Note 31.

Liabilities for crude oil and petroleum products are payable to the following:

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

17. Trade and Other Payables

This account consists of:

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

Trade payables are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are generally settled on a 30-day term.

Others include provisions, accruals of selling and administrative expenses, and advances which are normally settled within a year.

18. Long-term Debt

This account consists of:

	Note	2016	2015
Unsecured Peso-Denominated (net of debt issue costs)			
Fixed rate corporate notes of 7% due in 2017	*(a)*	**P19,964**	P19,926
Fixed rate corporate notes of 6.3212% due in 2018 and 7.1827% due in 2021	*(b)*	**3,401**	3,433
Term loan of 5.4583% plus GRT due in 2022	*(f)*	**4,981**	4,976
Fixed rate retail bonds of 4.0032% due in 2021 and 4.5219% due in 2023	*(g)*	**19,801**	-
Unsecured Foreign Currency-Denominated (net of debt issue costs)			
Floating rate dollar loan - MYR100 million	*(c)*	**832**	1,089
Floating rate dollar loan - MYR50 million	*(c)*	**-**	545
Floating rate dollar loan - MYR100 million	*(c)*	**920**	1,090
Floating rate dollar loan - MYR50 million	*(c)*	**506**	545
Floating rate dollar loan - US$475 million	*(d)*	**6,556**	15,639
Floating rate dollar loan - US$550 million	*(e)*	**22,891**	25,177
	34, 35	**79,852**	72,420
Less current portion		**20,911**	694
		P58,941	P71,726

a. On November 10, 2010, the Parent Company issued P20,000 Peso-denominated Notes, payable in US dollar. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year. The notes will mature on November 10, 2017. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment.

b. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCNs consisted of Series A Notes amounting to P690 having a maturity of up to 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements.

c. On March 17, 2014, PMRMB availed of Malaysian ringgit (MYR) 100 million (P1,374) loan and on March 31, 2014, PFISB availed of MYR50 million (P687) loan. Additionally, on June 27, 2014, PMRMB availed of MYR 100 million (P1,359) and on July 25, 2014, PFISB availed of five-year MYR 50 million (P685) loan. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) +1.5%. On April 29, 2016, PFISB fully prepaid the MYR50 million (P687) loan which was availed on March 31, 2014.

d. On May 14, 2014, the Parent Company signed and executed a US$300 million term loan facility. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. Proceeds were used to refinance existing debt and for general corporate purposes. Drawdowns and their respective amounts were made on the following dates: May 27, 2014 (US$70 million); June 4, 2014 (US$118 million); June 20, 2014 (US$70 million) and July 2, 2014 (US$42 million). On September 29, 2014, the Parent Company completed the syndication of the facility, raising the facility amount to US$475 million. Drawdowns related to the additional US$175 million were made as follows: October 24, 2014 (US$70 million) and November 6, 2014 (US$105 million). Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019. In 2015 and 2016, the Parent Company made partial payments on the following dates: September 29, 2015 (US$65 million); November 27, 2015 (US$70 million); March 31, 2016 (US$40 million); and October 28, 2016 (US$165 million).

e. On July 29, 2015, the Parent Company drew US$550 million from a US$550 million refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of about US$206 million and US$345 million under the US$480 million term loan facility and the US$485 million term loan facility, respectively. On November 11, 2015, the Parent Company completed the syndication of the new facility with 29 banks. On October 28, 2016, the Parent Company made partial payment amounting to US$80 million.

f. On October 13, 2015, the Parent Company drew P5,000 from a P5,000 term loan which was signed and executed on October 7, 2015. The facility is amortized over 7 years with a 2-year grace period and is subject to a fixed rate of 5.4583% plus GRT. The net proceeds from the issuance were used to repay currently maturing obligations and for general corporate requirements.

g. On October 27, 2016, the Parent Company issued P20,000 retail bonds (the "Bonds") divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with interest rate of 4.5219% per annum. Interests on these Bonds are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance of bonds were used to partially settle the US$475 million and US$550 million Term Loan facilities, to repay short-term loans and for general corporate requirements.

The above-mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements and restrictions on guarantees.

As of December 31, 2016 and 2015, the Parent Company has complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans (including amortization of debt issue costs) amounted to P4,155, P1,013 and P973 for the years ended 2016, 2015 and 2014, respectively (Note 26). Capitalized interest in 2015 amounted to P2,914 and nil in 2016 (Note 11).

Movements in debt issue costs follow:

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

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

2016

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

2015

Year	Gross Amount	Debt Issue Costs	Net
2016	P708	P14	P694
2017	31,217	669	30,548
2018	16,556	322	16,234
2019	12,075	169	11,906
2020	8,424	29	8,395
2021 and beyond	4,648	5	4,643
	P73,628	P1,208	P72,420

19. Asset Retirement Obligation

Movements in the ARO are as follows:

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

20. Other Noncurrent Liabilities

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

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

21. Equity

a. Capital Stock

Common Shares
Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and the permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of the Parent Company with par value of P1.00 per share were offered for sale at an offer price of P1.00 per share. As of December 31, 2016 and 2015, the Parent Company had 145,602 and 146,907 stockholders with at least one board lot at the PSE, respectively, for a total of 9,375,104,497 (P1.00 per share par value) issued and outstanding common shares.

Preferred Shares
On January 21, 2010, the SEC approved the Parent Company's amendment to its articles of incorporation to reclassify 624,895,503 unissued common shares into preferred shares with a par value of P1.00 per share, as part of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the Parent Company's offer and sale of 50,000,000 peso-denominated, cumulative, non-participating and non-voting, preferred shares, with an oversubscription option of 50,000,000 preferred shares (collectively, the "2010 Preferred Shares") to the public at an issue price of P100.00 per share. Proceeds from issuance in excess of par value less related transaction costs amounting to P9,764 was recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the Parent Company's BOD. The 2010 Preferred Shares were listed with PSE on March 5, 2010.

On October 17, 2014, the SEC issued an order permitting the Parent Company's public offering and sale of 7,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 3,000,000 preferred shares (collectively, the "Series 2 Preferred Shares") at an issue price of P1,000.00 per share.

On November 3, 2014, the Parent Company issued and listed in the PSE 10,000,000 Series 2 Preferred Shares at an offer price of P1,000.00 per share. The Series 2 Preferred Shares were issued in two (2) sub-series, (i) 7,122,320 Series 2A preferred shares (the "Series 2A Preferred Shares") and (ii) 2,877,680 Series 2B preferred shares (the "Series 2B Preferred Shares"). Proceeds from issuance in excess of par value less related transaction costs amounting to P9,889 was recognized as additional paid-in capital.

The Series 2A Preferred Shares may be redeemed by the Parent Company starting on the fifth anniversary from the listing date while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date. Series 2A and Series 2B Preferred Shares have dividend rates of 6.3000% and 6.8583%, respectively. Cash dividends are payable quarterly every February 3, May 3, August 3 and November 3 of each year, as and if declared by the Parent Company's BOD.

All shares rank equally as regards to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On March 5, 2015, the Parent Company redeemed the 2010 Preferred Shares at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's articles of incorporation. On July 6, 2015, the SEC approved the amendment of the articles of incorporation of the Parent Company to provide a re-issuability feature of its preferred shares.

As of December 31, 2016, the Parent Company had 10,000,000 (P1 par value) issued and outstanding preferred shares. The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2016 and 2015 are as follows:

	2016	2015
Series 2A Preferred Shares	**49**	41
Series 2B Preferred Shares	**31**	31
	80	72

b. Retained Earnings

i. Declaration of Cash Dividends

On various dates in 2015 and 2016, the Parent Company's BOD approved cash dividends for common and preferred shareholders with the following details:

Type	Per Share	Date of Declaration	Date of Record	Date of Payment
Common	P0.05000	March 17, 2015	April 1, 2015	April 16, 2015
Series 2A	15.75000	March 17, 2015	April 17, 2015	May 4, 2015
Series 2B	17.14575	March 17, 2015	April 17, 2015	May 4, 2015
Series 2A	15.75000	March 17, 2015	July 20, 2015	August 3, 2015
Series 2B	17.14575	March 17, 2015	July 20, 2015	August 3, 2015
Series 2A	15.75000	August 10, 2015	October 16, 2015	November 3, 2015
Series 2B	17.14575	August 10, 2015	October 16, 2015	November 3, 2015
Series 2A	15.75000	August 10, 2015	January 18, 2016	February 3, 2016
Series 2B	17.14575	August 10, 2015	January 18, 2016	February 3, 2016
Common	0.10000	March 15, 2016	March 31, 2016	April 14, 2016
Series 2A	15.75000	March 15, 2016	April 15, 2016	May 3, 2016
Series 2B	17.14575	March 15, 2016	April 15, 2016	May 3, 2016
Series 2A	15.75000	March 15, 2016	July 15, 2016	August 3, 2016
Series 2B	17.14575	March 15, 2016	July 15, 2016	August 3, 2016
Series 2A	15.75000	August 8, 2016	October 14, 2016	November 3, 2016
Series 2B	17.14575	August 8, 2016	October 14, 2016	November 3, 2016
Series 2A	15.75000	August 8, 2016	January 13, 2017	February 3, 2017
Series 2B	17.14575	August 8, 2016	January 13, 2017	February 3, 2017

Total cash dividends declared amounted to P1,584, P1,114 and P1,583 in 2016, 2015 and 2014, respectively.

ii. Appropriation for Capital Projects

On May 11, 2011, the Parent Company's BOD approved the proposal to revise the current level of appropriated retained earnings of P15,372 to P25,000 for the Parent Company's Refinery Master Plan 2 (RMP-2) project. On January 1, 2016, RMP-2 commenced commercial operation, thus, on May 5, 2016, the Parent Company's BOD approved the reversal of P25,000 appropriation for the Parent Company's RMP-2 and the re-appropriation of retained earnings amounting to P15,000 for capital projects in 2016 and 2017 which are expected to be completed within five years from the date of the approval.

On August 23, 2016, LLCDC's BOD approved the reversal of appropriation made in 2010 amounting to P5 (P3 - attributable to non-controlling interest) which was aimed to fund its construction management service. On December 20, 2016, NVRC's BOD approved an additional appropriation of retained earnings amounting to P200 (P120 - attributable to non-controlling interest) for the acquisition of parcels of land in 2017. Appropriation of the same amount was approved on September 29, 2015 for programmed lot acquisitions.

The appropriated retained earnings attributable to the equity holders of the Parent Company as of December 31, 2016 and 2015 amounted to P15,160 and P25,082, respectively.

c. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P15,040, P11,401 and P5,181 in 2016, 2015 and 2014, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

d. Equity reserves pertain to reserve for retirement plan, unrealized fair value losses on AFS financial assets, exchange differences on translation of foreign operations and others. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.

e. Undated Subordinated Capital Securities (USCS)

In February 2013, the Parent Company issued US$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, the Parent Company issued under the same terms and conditions of the Original Securities an additional US$250 million at a price of 104.25% ("New Securities"). The New Securities constituted a further issuance of, were fungible with, and were consolidated and formed a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "Securities"). Proceeds were applied by the Parent Company for capital and other expenditures of RMP-2 as well as for general corporate purposes.

The Securities were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, each sale of the Securities was considered an exempt transaction for which no confirmation of exemption from the registration requirements of The Securities Regulation Code ("SRC") was required to be filed with the SEC. In compliance with the amended rules of the SRC, notices of exemption for the issuances of the Securities were filed with the SEC on February 12, 2013 for the Original Securities and on March 19, 2013 for the New Securities.

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 7.5% per annum, subject to a step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid or deferred distributions at the Parent Company's option on or after August 6, 2018 or on any distribution payment date thereafter or upon the occurrence of certain other events.

Payments of distribution pertaining to the Securities amounting to US$28.125 million were made on each of the following dates: February 6, 2015 (P1,770); August 6, 2015 (P1,837); February 5, 2016 (P1,918); and August 5, 2016 (P1,889).

22. Cost of Goods Sold

This account consists of:

	Note	**2016**	2015	2014
Inventories	*9*	**P283,169**	P311,526	P451,318
Purchased services and utilities		**10,486**	8,156	4,464
Depreciation and amortization	*25*	**6,153**	2,724	2,654
Personnel expenses	*24*	**1,647**	1,565	1,529
Others	*19, 31*	**4,670**	4,763	3,439
		P306,125	P328,734	P463,404

Distribution or transshipment costs included as part of inventories amounted to P10,711, P11,066 and P10,289 in 2016, 2015 and 2014, respectively.

Others include manufacturing and overhead costs such as materials and supplies, maintenance and repairs and accretion of ARO.

23. Selling and Administrative Expenses

This account consists of:

	Note	**2016**	2015	2014
Depreciation and amortization	*14, 25*	**P3,352**	P3,548	P3,379
Personnel expenses	*24*	**3,373**	3,150	2,731
Purchased services and utilities		**3,004**	2,597	2,333
Advertising		**1,460**	1,482	985
Maintenance and repairs		**1,108**	985	1,160
Materials and office supplies		**754**	603	342
Taxes and licenses		**415**	314	301
Rent - net	*29, 31*	**154**	164	103
Impairment losses on trade and other receivables	*4, 8*	**68**	154	2
Others	*9*	**230**	313	190
		P13,918	P13,310	P11,526

Selling and administrative expenses include research and development costs amounting to P62, P65 and P66 in 2016, 2015 and 2014, respectively (Note 9). Rent is shown net of rental income amounting to P1,139, P1,131 and P1,145 in 2016, 2015 and 2014, respectively.

24. Personnel Expenses

This account consists of:

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

The above amounts are distributed as follows:

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

25. Depreciation and Amortization

This account consists of:

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

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

This account consists of:

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

Forward

	Note	**2016**	2015	2014
Other income (expenses):				
Foreign currency losses - net	*34*	**(P2,236)**	(P4,305)	(P1,617)
Marked-to-market gains - net	*35*	**824**	936	2,153
Insurance claims		**16**	61	33
Changes in fair value of financial assets at FVPL	*6*	**10**	11	19
Hedging gains (losses) - net		**(152)**	637	140
Others - net	*13*	**(897)**	(835)	62
		(P2,435)	(P3,495)	P790

The Parent Company recognized its share in the net loss of PDSI amounting to P3.07, P3.71 and P0.39 in 2016, 2015 and 2014, respectively, and its share in the net income of TBSB amounting to P5.66 in 2016. These were recorded as part of "Other income (expenses) - others" account. Also included in "Others - net" was the impairment loss on goodwill amounting to P298 in 2016 (Note 13).

27. Income Taxes

Deferred tax assets and liabilities are from the following:

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

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

	2016	2015
Deferred tax assets	**P194**	P211
Deferred tax liabilities	**(5,726)**	(4,638)
	(P5,532)	(P4,427)

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

	2016	2015	2014
Current	**P3,289**	P1,448	P569
Deferred	**267**	2,207	235
	P3,556	P3,655	P804

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

	2016	2015	2014
Excess of double-declining over straight-line method of depreciation and amortization	**P805**	(P156)	(P163)
MCIT	**468**	(232)	(232)
Inventory differential	**258**	(569)	(743)
Rental	**38**	(9)	(28)
NOLCO	**2**	405	(388)
Unutilized tax gains (losses)	**(13)**	91	(151)
Capitalized taxes and duties on inventories deducted in advance	**(34)**	34	7
ARO	**(78)**	(75)	22
Unrealized foreign exchange losses (gains) - net	**(118)**	(67)	210
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(441)**	2,818	1,261
Various allowances, accruals and others	**(480)**	(14)	395
Others	**(140)**	(19)	45
	P267	P2,207	P235

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

	Note	**2016**	2015	2014
Statutory income tax rate		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	*36*	**(9.63%)**	-	(4.14%)
Interest income subjected to lower final tax		**(0.13%)**	(0.74%)	(2.20%)
Nontaxable income		**(2.36%)**	(0.89%)	(1.36%)
Nondeductible expense		**1.85%**	2.40%	5.53%
Nondeductible interest expense		**0.06%**	0.26%	0.71%
Changes in fair value of financial assets at FVPL	*26*	**(0.02%)**	(0.03%)	(0.16%)
Excess of optional standard deduction over deductible expenses		**(0.05%)**	(0.07%)	(0.13%)
Others, mainly income subject to different tax rates		**5.01%**	5.90%	(7.16%)
Effective income tax rate		**24.73%**	36.83%	21.09%

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. Petrogen, LLCDC and PEDC opted to apply OSD in 2016, 2015 and 2014.

28. Related Party Disclosures

The Parent Company, certain subsidiaries, associate, joint ventures and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/to be settled in cash. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement Plan	*8, 14, 30, a*	**2016**	**P261**	**P -**	**P5,042**	**P -**	On demand;	Unsecured;
		2015	297	-	6,597	-	long-term;	no impairment
		2014	428	-	6,263	-	interest bearing	
Intermediate Parent	*e*	**2016**	**7**	**173**	**5**	**24**	On demand;	Unsecured;
		2015	9	74	3	35	non-interest	no impairment
		2014	5	133	5	46	bearing	
Under Common Control	*14, b, c, d, i*	**2016**	**6,473**	**30,773**	**1,096**	**5,850**	On demand;	Unsecured;
		2015	3,587	14,504	975	1,682	non-interest	no impairment
		2014	7,261	7,298	1,026	1,089	bearing	
Associate	*b*	**2016**	**154**	**-**	**33**	**-**	On demand;	Unsecured;
		2015	143	-	31	-	non-interest	no impairment
		2014	152	-	29	-	bearing	
Joint Ventures	*c, f*	**2016**	**-**	**172**	**-**	**3**	On demand;	Unsecured;
		2015	-	95	-	2	non-interest	no impairment
		2014	-	83	11	12	bearing	
		2016	**P6,895**	**P31,118**	**P6,176**	**P5,877**		
		2015	P4,036	P14,673	P7,606	P1,719		
		2014	P7,846	P7,514	P7,334	P1,147		

a. As of December 31, 2016 and 2015, the Parent Company has interest bearing advances to PCERP, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position, for some investment opportunities (Notes 8, 14 and 30).

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

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

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

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

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

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

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

i. In 2016, the Parent Company reacquired the Refinery Solid Fuel-Fired Power Plant (the "Power Plant") from SMC Powergen, Inc. The Power Plant is presented as part of "Refinery and plant equipment" category in the "Property, plant and equipment" account (Note 11).

j. The compensation and benefits of key management personnel of the Group, by benefit type, included as part of "Personnel expenses" account follow (Note 24):

	2016	2015	2014
Salaries and other short-term employee benefits	**P754**	P659	P690
Retirement benefits costs (income) - defined benefit plan	**133**	86	(3)
Retirement benefits costs - defined contribution plan	**31**	27	25
	P918	P772	P712

29. Operating Lease Commitments

Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The leases' life ranges from one to forty two years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

	2016	2015	2014
Within one year	**P1,322**	P1,269	P1,181
After one year but not more than five years	**3,497**	2,982	2,814
After five years	**10,763**	9,821	9,296
	P15,582	P14,072	P13,291

Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between three to ten years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

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

30. Retirement Plan

The succeeding tables summarize the components of net retirement benefits costs (income) under defined benefit retirement plans recognized in profit or loss and the funding status and amounts of retirement plans recognized in the consolidated statements of financial position. The Parent Company has a funded, noncontributory, defined benefit retirement plan while several subsidiaries have unfunded, noncontributory, defined benefit retirement plans. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is as of December 31, 2016. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of Defined Benefit Obligation			Fair Value of Plan Assets			Effect of Asset Ceiling			Net Defined Benefit Retirement Asset (Liability)		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Balance at beginning of year	**(P5,603)**	(P5,947)	(P5,867)	**P12**	P3,603	P9,598	**P -**	P -	(P1,448)	**(P5,591)**	(P2,344)	P2,283
Recognized in Profit or Loss												
Current service cost	**(285)**	(302)	(302)	**-**	-	-	**-**	-	-	**(285)**	(302)	(302)
Past service cost - plan amendment	**(2)**	-	-	**-**	-	-	**-**	-	-	**(2)**	-	-
Interest expense	**(278)**	(269)	(311)	**-**	-	-	**-**	-	-	**(278)**	(269)	(311)
Interest income	**-**	-	-	**(14)**	152	500	**-**	-	-	**(14)**	152	500
Interest on the effect of asset ceiling	**-**	-	-	**-**	-	-	**-**	-	(77)	**-**	-	(77)
Settlement gain	**-**	-	99	**-**	-	-	**-**	-	-	**-**	-	99
	(565)	(571)	(514)	**(14)**	152	500	**-**	-	(77)	**(579)**	(419)	(91)
Recognized in Other Comprehensive Income												
Remeasurements:												
Actuarial losses (gains) arising from:												
Experience adjustments	**(398)**	(163)	(235)	**-**	-	-	**-**	-	-	**(398)**	(163)	(235)
Changes in financial assumptions	**173**	151	(331)	**-**	-	-	**-**	-	-	**173**	151	(331)
Changes in demographic assumptions	**302**	197	466	**-**	-	-	**-**	-	-	**302**	197	466
Return on plan asset excluding interest	**-**	-	-	**2,570**	(3,297)	(6,081)	**-**	-	-	**2,570**	(3,297)	(6,081)
Changes in the effect of asset ceiling	**-**	-	-	**-**	-	-	**-**	-	1,525	**-**	-	1,525
	77	185	(100)	**2,570**	(3,297)	(6,081)	**-**	-	1,525	**2,647**	(3,112)	(4,656)
Others												
Benefits paid	**753**	600	485	**(651)**	(546)	(414)	**-**	-	-	**102**	54	71
Contributions	**-**	-	-	**35**	100	-	**-**	-	-	**35**	100	-
Transfer to other accounts payable	**-**	6	-	**-**	-	-	**-**	-	-	**-**	6	-
Transfers from other plans/affiliate	**(16)**	-	-	**-**	-	-	**-**	-	-	**(16)**	-	-
Transfers to other plans/affiliate	**16**	-	-	**-**	-	-	**-**	-	-	**16**	-	-
Translation adjustment	**(6)**	124	49	**-**	-	-	**-**	-	-	**(6)**	124	49
	747	730	534	**(616)**	(446)	(414)	**-**	-	-	**131**	284	120
Balance at end of year	**(P5,344)**	(P5,603)	(P5,947)	**P1,952**	P12	P3,603	**P -**	P -	P -	**(P3,392)**	(P5,591)	(P2,344)

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

	Note	**2016**	2015
Trade and other payables	*17*	**P77**	P82
Retirement benefits liability (noncurrent portion)		**3,315**	5,509
		P3,392	P5,591

Retirement benefits costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P485, P329 and (P11) in 2016, 2015 and 2014, respectively.

Retirement benefits costs recognized in the consolidated statements of income by the subsidiaries amounted to P94, P90 and P102 in 2016, 2015 and 2014, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2016 and 2015.

Plan assets consist of the following:

	2016	2015
Shares of stock:		
Quoted	**82%**	74%
Unquoted	**4%**	4%
Government securities	**9%**	9%
Cash and cash equivalents	**2%**	3%
Others	**3%**	10%
	100%	100%

Investment in Shares of Stock. As of December 31, 2016, the Parent Company's plan assets include 731,156,097 common shares of Petron with fair market value per share of P9.95, 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P80.00, and investment in Petron bonds amounting to P124.

The Group's plan recognized a gain (loss) on the investment in marketable securities and bonds of the Parent Company and SMC amounting to P2,169 and (P2,641) in 2016 and 2015, respectively, mainly as a result of marked-to-market re-measurements.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P85, P56, and P76 in 2016, 2015, and 2014, respectively.

On September 21, 2015, the plan's 2,000,000 Series "2", Subseries "A" preferred shares of SMC were redeemed at P75.00 per share.

On July 25, 2016, the Group plan's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921. Accordingly, the plan recognized gain on sale of investment amounting to P503.

Investment in Trust Account. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

Others include receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company expects to contribute P456 to its defined benefit retirement plan in 2017.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Risk. The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Parent company's long-term strategy to manage the plans efficiently.

Longevity and Salary Risks. The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	2016	2015	2014
Discount rate	**5.38% to 5.53%**	4.60% to 5.50%	4.49% to 5.50%
Future salary increases	**5.00% to 8.00%**	6.00% to 8.00%	6.00% to 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 5.46 to 23.90 years and 6.78 to 27.78 years as of December 31, 2016 and 2015, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

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

	Defined Benefit Liabilities	
2015	1 Percent Increase	1 Percent Decrease
Discount rate	(P402)	P469
Salary increase rate	436	(382)

The Parent Company has advances to PCERP amounting to P5,042 and P6,597 as of December 31, 2016 and 2015, respectively, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position (Notes 8, 14 and 28). The advances are subject to interest of 5% in 2016 and 2015 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2016 and 2015 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not recognized any impairment losses relating to the receivables from retirement plan for the years ended December 31, 2016 and 2015.

31. Significant Agreements

Supply Agreement. The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company ("Saudi Aramco"), based on the latter's standard Far East selling prices. The contract is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice. PSTPL entered into a term contract with Kuwait Petroleum Corporation ("KPC") to purchase Kuwait Export Crude Oil ("KEC") at pricing based on latter's standard KEC prices. The contract is from January 1, 2015 to December 31, 2015 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company and PSTPL for such purchases are shown as part of "Liabilities for crude oil and petroleum products" account in the consolidated statements of financial position as of December 31, 2016 and 2015 (Note 16).

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

Toll Service Agreement with Innospec Limited ("Innospec"). PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P64, P48 and P49 in 2016, 2015 and 2014, respectively.

Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The agreement expired in November 2015 and was renewed for another two years until November 2017. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone.

Lease Agreement with Philippine National Oil Company (PNOC). On September 30, 2009, the Parent Company through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2016 and 2015, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

32. Basic and Diluted Earnings Per Share

Basic and diluted earnings (loss) per share amounts are computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	**P10,100**	P5,618	P3,320
Dividends on preferred shares for the year	**(646)**	(646)	(1,114)
Distributions to the holders of USCS	**(3,807)**	(3,607)	(3,580)
Net income (loss) attributable to common shareholders of the Parent Company (a)	**P5,647**	P1,365	(P1,374)
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**P0.60**	P0.15	(P0.15)

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

33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

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

34. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

b. The Treasurers Department, which is in charge of foreign currency hedging transactions.

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

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

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

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

g. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

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

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

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

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

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

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

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

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

	2016		2015	
	US dollar	Phil. peso Equivalent	US dollar	Phil. peso Equivalent
Assets				
Cash and cash equivalents	**261**	**12,989**	287	13,510
Trade and other receivables	**218**	**10,808**	165	7,788
Other assets	**5**	**244**	46	2,157
	484	**24,041**	498	23,455
Liabilities				
Short-term loans	**40**	**1,996**	326	15,351
Liabilities for crude oil and petroleum products	**539**	**26,798**	284	13,380
Long-term debts (including current maturities)	**651**	**32,347**	959	45,153
Other liabilities	**82**	**4,056**	78	3,658
	1,312	**65,197**	1,647	77,542
Net foreign currency-denominated monetary liabilities	**(828)**	**(41,156)**	(1,149)	(54,087)

The Group incurred net foreign currency losses amounting to P2,236, P4,305 and P1,617 in 2016, 2015 and 2014, respectively (Note 26), which were mainly countered by marked-to-market and realized hedging gains (Note 26). The foreign currency rates from Philippine peso (PhP) to US dollar (US$) as of December 31 are shown in the following table:

	PhP to US$
December 31, 2016	**49.720**
December 31, 2015	47.060
December 31, 2014	44.720

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

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P323 and P452 in 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

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

2016	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.52% -5.5%	
Floating Rate							
Malaysian ringgit denominated (expressed in PhP)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US$ denominated (expressed in PhP)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

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

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

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

Credit Risk

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

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

	Note	2016	2015
Cash in bank and cash equivalents (net of cash on hand)	*5*	**P15,538**	P16,852
Derivative assets	*6*	**64**	362
Available-for-sale financial assets	*7*	**479**	621
Trade and other receivables - net	*8*	**31,548**	30,749
Due from related parties	*14*	**-**	1,816
Long-term receivables - net	*14*	**205**	189
Noncurrent deposits	*14*	**81**	82
		P47,915	P50,671

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 8). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P3,943 and P4,070 as of December 31, 2016 and 2015, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on trade accounts receivable as of December 31, 2016 and 2015 are shown below (Note 8):

	Neither Past Due nor Impaired	**Past Due but not Impaired**	**Impaired**	**Total**
December 31, 2016				
Reseller	**P3,221**	**P127**	**P63**	**P3,411**
Lubes	**450**	**7**	**11**	**468**
Gasul	**529**	**61**	**118**	**708**
Industrial	**7,316**	**382**	**535**	**8,233**
Others	**6,162**	**277**	**80**	**6,519**
	P17,678	**P854**	**P807**	**P19,339**

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2015				
Reseller	P2,806	P117	P71	P2,994
Lubes	341	8	13	362
Gasul	392	48	133	573
Industrial	5,071	367	518	5,956
Others	8,021	306	89	8,416
	P16,631	P846	P824	P18,301

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

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

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

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's trade accounts receivable as of December 31, 2016 and 2015:

	Trade Accounts Receivables Per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2016				
Reseller	**P501**	**P2,775**	**P135**	**P3,411**
Lubes	**366**	**50**	**52**	**468**
Gasul	**287**	**258**	**163**	**708**
Industrial	**2,416**	**4,959**	**858**	**8,233**
Others	**3,273**	**2,408**	**838**	**6,519**
	P6,843	**P10,450**	**P2,046**	**P19,339**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2015				
Reseller	P307	P2,622	P65	P2,994
Lubes	155	194	13	362
Gasul	111	346	116	573
Industrial	1,451	3,031	1,474	5,956
Others	5,664	2,590	162	8,416
	P7,688	P8,783	P1,830	P18,301

Liquidity Risk

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

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

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

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

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

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

2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P18,881	P18,881	P18,881	P -	P -	P -
Trade and other receivables	30,749	30,749	30,749	-	-	-
Due from related parties	1,816	1,816	-	1,816	-	-
Derivative assets	362	362	362	-	-	-
Financial assets at FVPL	147	147	147	-	-	-
AFS financial assets	621	657	253	68	209	127
Long-term receivables - net	189	272	-	-	272	-
Noncurrent deposits	82	83	-	5	9	69
Financial Liabilities						
Short-term loans	99,481	100,126	100,126	-	-	-
Liabilities for crude oil and petroleum products	16,271	16,271	16,271	-	-	-
Trade and other payables*	6,767	6,767	6,767	-	-	-
Derivative liabilities	603	603	603	-	-	-
Long-term debts (including current maturities)	72,420	82,675	4,077	34,306	39,324	4,968
Cash bonds	382	388	-	367	4	17
Cylinder deposits	454	454	-	-	-	454
Other noncurrent liabilities	70	70	-	-	-	70

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

Commodity Price Risk

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

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

Other Market Price Risk

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

Capital Management

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

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

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

	2016	2015
Total assets	**P318,893**	P294,267
Total liabilities	**230,073**	211,167
Total equity	**88,820**	83,100
Debt to equity ratio	**2.6:1**	2.5:1
Assets to equity ratio	**3.6:1**	3.5:1

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

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

35. Financial Assets and Financial Liabilities

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

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

	Note	2016 Carrying Amount	2016 Fair Value	2015 Carrying Amount	2015 Fair Value
Financial liabilities (FL):					
Short-term loans	*15*	**P90,366**	**P90,366**	P99,481	P99,481
Liabilities for crude oil and petroleum products	*16*	**29,966**	**29,966**	16,271	16,271
Trade and other payables*	*17*	**12,709**	**12,709**	6,767	6,767
Long-term debt including current portion	*18*	**79,852**	**79,852**	72,420	72,420
Cash bonds	*20*	**387**	**387**	382	382
Cylinder deposits	*20*	**499**	**499**	454	454
Other noncurrent liabilities	*20*	**73**	**73**	70	70
FL at amortized cost		**213,852**	**213,852**	195,845	195,845
Derivative liabilities		**778**	**778**	603	603
Total financial liabilities		**P214,630**	**P214,630**	P196,448	P196,448

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

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

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

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

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

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

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2016 and 2015 are 4.99% and 5.84%, respectively.

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

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

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

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

Currency Forwards. As of December 31, 2016 and 2015, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$875 million and US$1,013 million, respectively, and with various maturities in 2017 and 2016. As of December 31, 2016 and 2015, the net fair value of these currency forwards amounted to (P38) and (P202), respectively.

Commodity Swaps. The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017 and 2016. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 26.3 million barrels and 10.9 million barrels for 2016 and 2015, respectively. The estimated net payouts for these transactions amounted to P676 and P39 in 2016 and 2015, respectively.

Commodity Options. As of December 31, 2016 and 2015, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

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

As of December 31, 2016 and 2015, the total outstanding notional amount of currency forwards embedded in non-financial contracts is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2016 and 2015, the net positive fair value of these embedded currency forwards is minimal.

For the years ended December 31, 2016, 2015 and 2014, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P824, P936 and P2,153, respectively (Note 26).

Fair Value Changes on Derivatives
The net movements in the fair value of all derivative transactions in 2016 and 2015 are as follows:

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

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2016 and 2015. The different levels have been defined as follows:

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

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

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

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

36. Registration with the Board of Investments (BOI)

Benzene, Toluene and Propylene Recovery Units
On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, the Company is entitled to certain benefits on its production of petroleum products used as petrochemical feedstock, mainly, among others, Income Tax Holiday (ITH): (1) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

The BOI extended Petron's ITH incentive for its propylene sales from December 2013 to November 2014 and for its benzene and toluene sales from May 2014 to April 2015.

RMP-2 Project
On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operation on January 1, 2016 and the Parent Company availed of the ITH during the year.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

37. Segment Information

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

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

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

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

c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, Brunei, Taiwan, Cambodia, Malaysia, Thailand, Indonesia, South Korea and Singapore.

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

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

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

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the years ended December 31, 2016, 2015 and 2014.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2016						
Revenue:						
External sales	**P341,979**	**P -**	**P76**	**P1,823**	**(P38)**	**P343,840**
Inter-segment sales	**161,982**	**132**	**517**	**32**	**(162,663)**	**-**
Operating income	**23,208**	**104**	**271**	**48**	**166**	**23,797**
Net income	**10,495**	**125**	**96**	**63**	**43**	**10,822**
Assets and liabilities:						
Segment assets*	**363,812**	**1,106**	**5,604**	**720**	**(52,543)**	**318,699**
Segment liabilities*	**242,140**	**192**	**4,325**	**147**	**(22,457)**	**224,347**
Other segment information:						
Property, plant and equipment	**171,330**	**-**	**-**	**151**	**5,123**	**176,604**
Depreciation and amortization	**9,289**	**-**	**2**	**41**	**173**	**9,505**
Interest expense	**7,557**	**-**	**173**	**-**	**(173)**	**7,557**
Interest income	**651**	**22**	**2**	**5**	**(173)**	**507**
Income tax expense	**1,832**	**15**	**23**	**11**	**1,675**	**3,556**

**excluding deferred tax assets and liabilities*

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

**excluding deferred tax assets and liabilities*

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2014						
Revenue:						
External sales	P479,753	P -	P -	P2,782	P -	P482,535
Inter-segment sales	249,428	82	550	-	(250,060)	-
Operating income	7,154	53	238	59	101	7,605
Net income	3,172	85	36	70	(354)	3,009
Assets and liabilities:						
Segment assets*	422,442	1,388	5,090	1,072	(38,910)	391,082
Segment liabilities*	292,491	185	4,010	360	(22,885)	274,161
Other segment information:						
Property, plant and equipment	148,256	-	-	232	5,162	153,650
Depreciation and amortization	5,920	-	2	45	66	6,033
Interest expense	5,528	-	189	-	(189)	5,528
Interest income	1,011	14	1	6	(188)	844
Income tax expense	809	11	22	14	(52)	804

**excluding deferred tax assets and liabilities*

Inter-segment sales transactions amounted to P162,663, P158,842 and P250,060 for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table presents additional information on the petroleum business segment of the Group as of and for the years ended December 31, 2016, 2015 and 2014:

	Reseller	Lube	Gasul	Industrial	Others	Total
2016						
Revenue	**P161,415**	**P4,445**	**P17,922**	**P83,650**	**P74,547**	**P341,979**
Property, plant and equipment	**18,557**	**110**	**384**	**210**	**152,069**	**171,330**
Capital expenditures	**3,214**	**1**	**89**	**110**	**21,920**	**25,334**
2015						
Revenue	169,179	4,052	18,119	81,587	84,971	357,908
Property, plant and equipment	18,682	138	360	200	136,939	156,319
Capital expenditures	1,909	1	61	99	114,515	116,585
2014						
Revenue	241,118	3,677	25,157	138,455	71,346	479,753
Property, plant and equipment	22,167	150	393	161	125,385	148,256
Capital expenditures	2,256	-	41	98	102,333	104,728

Geographical Segments

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

	2016	2015
Local	**P261,761**	P242,529
International	**56,938**	51,527
	P318,699	P294,056

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2016, 2015 and 2014.

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

38. Events After the Reporting Date

On February 3, 2017, the Parent Company paid distributions amounting to US$28.125 million (P2,000) to the holders of USCS.

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

Type	Per Share	Record Date	Payment Date
Common	P0.10000	March 28, 2017	April 12, 2017
Series 2A	15.75000	April 12, 2017	May 3, 2017
Series 2B	17.14575	April 12, 2017	May 3, 2017
Series 2A	15.75000	July 18, 2017	August 3, 2017
Series 2B	17.14575	July 18, 2017	August 3, 2017

39. Other Matters

a. The Group has unused letters of credit totaling approximately P21,638 and P28,799 as of December 31, 2016 and 2015, respectively.

b. Tax Credit Certificates Related Cases

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

c. Pandacan Terminal Operations

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

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

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

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

On August 24, 2012 (August 24 Decision), the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Parent Company filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2016, the appeal remained pending.

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

On November 25, 2014, the Supreme Court issued a Decision (November 25 Decision) declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Parent Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, the Parent Company filed its submission in compliance with the November 25 Decision.

d. Oil Spill Incident in Guimaras

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amount to P292. The cases were pending as of December 31, 2016.

e. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, Management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business, financial condition or results of operations.

REPORT OF INDEPENDENT AUDITORS ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Petron Corporation and Subsidiaries, which comprise the condensed consolidated interim statement of financial position as of September 30, 2017, and the condensed consolidated interim statements of income, condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim statements of cash flows for the nine months ended September 30, 2017 and 2016, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standards (PAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PRC-BOA Registration No. 0003, valid until March 15, 2020
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP Accredited, Category A, valid until December 17, 2017

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of Petron Corporation and Subsidiaries as of September 30, 2017 and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2017 and 2016 in accordance with PAS 34.

Other Matter

We audited the consolidated financial statements of Petron Corporation and Subsidiaries, as of and for the year ended December 31, 2016 and expressed an unqualified opinion thereon dated March 14, 2017.

Limitation of Use

The accompanying condensed consolidated interim financial statements were prepared solely for the purpose of Petron Corporation's Offering of US dollar Senior Perpetual Notes and is not intended to be, and should not be used by anyone other than for the specified purpose.

R.G. MANABAT & CO.

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Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 5904948MD
Issued January 3, 2017 at Makati City

November 10, 2017
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(Amounts in Million Pesos)

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

Forward

	Note	September 30 2017 (Unaudited)	December 31 2016 (Audited)
Noncurrent Liabilities			
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
Total Noncurrent Liabilities		**84,721**	71,265
Total Liabilities		**226,694**	230,073
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,485**	9,485
Additional paid-in capital		**19,653**	19,653
Undated subordinated capital securities		**30,546**	30,546
Retained earnings		**47,166**	42,011
Equity reserves		**(4,963)**	(7,204)
Treasury stock		**(10,000)**	(10,000)
Total Equity Attributable to Equity Holders of the Parent Company		**91,887**	84,491
Non-controlling Interests		**5,493**	4,329
Total Equity		**97,380**	88,820
		P324,074	P318,893

See Notes to the Condensed Consolidated Interim Financial Statements.

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

	For the Nine Months Ended September 30		
	Note	**2017**	2016
SALES	*5*	**P313,505**	P247,770
COST OF GOODS SOLD		**281,151**	221,164
GROSS PROFIT		**32,354**	26,606
SELLING AND ADMINISTRATIVE EXPENSES		**(10,283)**	(9,765)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*5*	**(6,523)**	(5,496)
INTEREST INCOME	*5*	**359**	379
SHARE IN NET INCOME OF AN ASSOCIATE		**63**	77
OTHER EXPENSES - Net		**(400)**	(1,244)
		(16,784)	(16,049)
INCOME BEFORE INCOME TAX		**15,570**	10,557
INCOME TAX EXPENSE	*5*	**3,809**	3,130
NET INCOME	*5*	**P11,761**	P7,427
Attributable to:			
Equity holders of the Parent Company		**P10,763**	P7,073
Non-controlling interests		**998**	354
		P11,761	P7,427
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*12*	**P0.77**	P0.40

See Notes to the Condensed Consolidated Interim Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Amounts in Million Pesos)

	For the Nine Months Ended September 30	
	2017	2016
NET INCOME	**P11,761**	P7,427
OTHER COMPREHENSIVE INCOME		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
Equity reserve for retirement plan	**4**	1
Share in other comprehensive income of an associate	**-**	3
Income tax expense	**(1)**	(1)
	3	3
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
Exchange differences on translation of foreign operations	**2,590**	2,007
Unrealized fair value gains on available-for-sale financial assets	**1**	7
Income tax expense	**(1)**	(2)
	2,590	2,012
OTHER COMPREHENSIVE INCOME - Net of tax	**2,593**	2,015
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax	**P14,354**	P9,442
Attributable to:		
Equity holders of the Parent Company	**P13,004**	P8,976
Non-controlling interests	**1,350**	466
	P14,354	P9,442

See Notes to the Condensed Consolidated Interim Financial Statements.

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

		Equity Attributable to Equity Holders of the Parent Company										
					Retained Earnings		Equity Reserves					
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of January 1, 2017 (Audited)		**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 - net of tax		-	-	-	-	-	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)
As of September 30, 2017 (Unaudited)		**P9,485**	**P19,653**	**P30,546**	**P15,160**	**P32,006**	**(P1,342)**	**(P3,621)**	**(P10,000)**	**P91,887**	**P5,493**	**P97,380**
As of January 1, 2016 (Audited)		P9,485	P19,653	P30,546	P25,082	P16,630	(P3,204)	(P5,563)	(P10,000)	P82,629	P471	P83,100
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)
As of September 30, 2016 (Unaudited)		P9,485	P19,653	P30,546	P15,080	P28,313	(P3,201)	(P4,742)	(P10,000)	P85,134	(P73)	P85,061

See Notes to the Condensed Consolidated Interim Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Million Pesos)

		For the Nine Months Ended September 30	
	Note	**2017**	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
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
CASH FLOWS FROM INVESTING ACTIVITIES			
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)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans	*8, 11*	**186,488**	153,385
Payments of:			
Loans	*8, 11*	**(193,754)**	(172,138)
Cash dividends and distributions	*11,13*	**(5,617)**	(5,381)
Purchase of non-controlling interest in a subsidiary		**-**	(1,921)
Increase in other noncurrent liabilities		**512**	206
Net cash flows used in financing activities		**(12,371)**	(25,849)

Forward

	For the Nine Months Ended September 30	
	2017	2016
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**P88**	P163
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,296**	(7,341)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**17,332**	18,881
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**P19,628**	P11,540

See Notes to the Condensed Consolidated Interim Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

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

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 condensed 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 Investments Holdings, Inc. Both companies are incorporated in the Philippines.

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

2. Statement of Compliance

The condensed 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 condensed 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 condensed consolidated interim financial statements were prepared solely for the purpose of Petron Corporation's Offering of US dollar Senior Perpetual Notes and is not intended to be, and should not be used by anyone other than for the specified purpose.

The condensed consolidated interim financial statements were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on November 10, 2017.

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

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed 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 condensed 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 condensed consolidated interim financial statements of the Group:

    - *Clarification of the scope of the standard (Amendments to PFRS 12 Disclosures 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 condensed consolidated interim financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's condensed consolidated interim 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 *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 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, 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 Standards 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.

4. Use of Judgments and Estimates

In preparing these condensed 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.

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, Brunei, 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	Total Reportable Segments	Elimination/ Others	Total
September 30, 2017							
Revenue:							
External sales	P312,961	P -	P47	P544	P313,552	(P47)	P313,505
Inter-segment sales	136,711	92	391	-	137,194	(137,194)	-
Operating income	21,530	85	230	-	21,845	226	22,071
Net income	12,481	97	98	6	12,682	(921)	11,761
Assets and liabilities:							
Segment assets	371,503	1,530	5,911	582	379,526	(55,654)	323,872
Segment liabilities	239,793	511	4,519	94	244,917	(25,519)	219,398
Other segment information:							
Property, plant and equipment	171,990	-	-	134	172,124	5,341	177,465
Depreciation and amortization	7,955	-	6	18	7,979	-	7,979
Interest expense and other financing charges	6,523	-	124	-	6,647	(124)	6,523
Interest income	460	19	1	3	483	(124)	359
Income tax expense	3,761	15	14	(3)	3,787	22	3,809

	Petroleum	Insurance	Leasing	Marketing	Total Reportable Segments	Elimination/ Others	Total
December 31, 2016							
Revenue:							
External sales	P341,979	P -	P76	P1,823	P343,878	(P38)	P343,840
Inter-segment sales	161,981	132	517	32	162,662	(162,662)	-
Operating income	23,208	104	271	48	23,631	166	23,797
Net income	10,495	125	96	63	10,779	43	10,822
Assets and liabilities:							
Segment assets	363,812	1,106	5,604	720	371,242	(52,543)	318,699
Segment liabilities	242,140	192	4,325	147	246,804	(22,457)	224,347
Other segment information:							
Property, plant and equipment	171,330	-	-	151	171,481	5,123	176,604
Depreciation and amortization	9,289	-	2	41	9,332	173	9,505
Interest expense and other financing charges	7,557	-	173	-	7,730	(173)	7,557
Interest income	651	22	2	5	680	(173)	507
Income tax expense	1,832	15	23	11	1,881	1,675	3,556

	Petroleum	Insurance	Leasing	Marketing	Total Reportable Segments	Elimination/ Others	Total
September 30, 2016							
Revenue:							
External sales	P246,180	P -	P99	P1,551	P247,830	(P60)	P247,770
Inter-segment sales	112,360	95	357	38	112,850	(112,850)	-
Operating income	16,456	76	199	55	16,786	55	16,841
Net income	10,805	93	53	62	11,013	(3,586)	7,427
Assets and liabilities:							
Segment assets	330,588	1,296	5,195	742	337,821	(51,983)	285,838
Segment liabilities	207,664	430	3,959	173	212,226	(16,773)	195,453
Other segment information:							
Property, plant and equipment	154,168	-	-	189	154,357	4,724	159,081
Depreciation and amortization	6,833	-	1	29	6,863	173	7,036
Interest expense and other financing charges	5,496	-	131	-	5,627	(131)	5,496
Interest income	487	17	2	4	510	(131)	379
Income tax expense	2,925	14	15	9	2,963	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**
September 30, 2017						
Revenue	**P152,803**	**P4,039**	**P16,414**	**P75,071**	**P64,634**	**P312,961**
Property, plant and equipment	**19,950**	**90**	**392**	**222**	**151,336**	**171,990**
Capital expenditures	**2,722**	**2**	**90**	**88**	**5,129**	**8,031**
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
	P323,872	P318,699

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
September 30, 2017						
Local	**P178,013**	**P54**	**P438**	**P544**	**(P892)**	**P178,157**
Export/international	**271,659**	**38**	**-**	**-**	**(136,349)**	**135,348**
December 31, 2016						
Local	P204,585	P64	P593	P1,855	(P1,686)	P205,411
Export/international	299,375	68	-	-	(161,014)	138,429
September 30, 2016						
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
Cost							
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
September 30, 2017	**31,378**	**183,951**	**17,344**	**4,774**	**14,778**	**8,031**	**260,256**
Accumulated depreciation and amortization							
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
September 30, 2017	**19,770**	**44,211**	**12,827**	**3,679**	**2,304**	**-**	**82,791**
Carrying Amount							
December 31, 2016	P10,165	P124,012	P4,185	P1,123	P11,800	P25,319	P176,604
September 30, 2017	**P11,608**	**P139,740**	**P4,517**	**P1,095**	**P12,474**	**P8,031**	**P177,465**

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:

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

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

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

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rental of 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.

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

f. Terminal Bersama Sdn Bhd, an operator of Liquefied Petroleum Gas (LPG) bottling plant, provides bottling services for Petron Fuel International Sdn Bhd (PFISB) and another venture.

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

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

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 in the consolidated statements of financial position (Note 6).

8. Loans and Borrowings

Short-term Loans

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

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

This account pertains to unsecured Philippine peso 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.

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 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 BOD, 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 operation, 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:

	September 30, 2017		December 31, 2016	
	US dollar	**Philippine peso Equivalent**	US dollar	Philippine peso Equivalent
Assets				
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
	520	**26,442**	484	24,041
Liabilities				
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
	1,271	**64,600**	1,312	65,197
Net foreign currency -denominated monetary liabilities	**(751)**	**(38,158)**	(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:

	Php to US$
September 30, 2017	**50.815**
December 31, 2016	49.720

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**	
September 30, 2017	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P155)**	**(P252)**	**P155**	**P252**
Trade and other receivables	**(91)**	**(186)**	**91**	**186**
Other assets	**(2)**	**(8)**	**2**	**8**
	(248)	**(446)**	**248**	**446**
Liabilities for crude oil and petroleum products	**363**	**469**	**(363)**	**(469)**
Long-term debts (including current maturities)	**600**	**420**	**(600)**	**(420)**
Other liabilities	**37**	**82**	**(37)**	**(82)**
	1,000	**971**	**(1,000)**	**(971)**
	P752	**P525**	**(P752)**	**(P525)**

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

Exposures to foreign currency rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's 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) and equity 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
Fixed Rate							
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%	
Floating Rate							
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
Fixed Rate							
Philippine peso denominated	P20,036	P1,678	P1,029	P1,029	P16,648	P8,000	P48,420
Interest rate	6.3% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	5.5% - 7.2%	4.0% - 7.2%	4.5% - 5.5%	
Floating Rate							
Malaysian ringgit denominated (expressed in Php)	920	920	426	-	-	-	2,266
Interest rate	1.5%+COF	1.5%+COF	1.5%+COF				
US$ denominated (expressed in Php)	-	11,081	11,187	7,813	-	-	30,081
Interest rate*		1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	P20,956	P13,679	P12,642	P8,842	P16,648	P8,000	P80,767

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

	September 30 2017	December 31 2016
Cash in bank and cash equivalents (net of cash on hand)	**P17,280**	P15,538
Derivative assets	**293**	64
Available-for-sale (AFS) financial assets	**481**	479
Trade and other receivables - net	**32,204**	31,548
Long-term receivables - net	**222**	205
Noncurrent deposits	**86**	81
	P50,566	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 nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial 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:

September 30, 2017	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**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**
Financial Liabilities						
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.*

December 31, 2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	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	-
Financial Liabilities						
Short-term loans	90,366	90,882	90,882	-	-	-
Liabilities for crude oil and petroleum products	29,966	29,966	29,966	-	-	-
Trade and other payables*	12,709	12,709	12,709	-	-	-
Derivative liabilities	778	778	778	-	-	-
Long-term 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 statements of financial position. The Group's capital for the covered reporting period is summarized below:

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

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.

<u>Financial Assets</u>
Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated 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 nonfinancial 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" account in the condensed 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" account in the condensed 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 condensed 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 condensed 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 condensed 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 condensed 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 condensed consolidated interim 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:

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

September 30, 2017	**Level 1**	**Level 2**	**Total**
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)**

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.

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 & 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. 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 agreement is subject to fulfillment of several conditions as set out in the Share Purchase Agreement.

   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 condensed consolidated interim statement of financial position as of September 30, 2017. Impairment loss recognized as part of "Other expenses - net" account in the condensed consolidated interim statements of income as a result of the reclassification amounted to P189.

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

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

13. Cash 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

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 Presidential Decree No. 1067. 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 No. 8119. Section 55, which imposed an easement of 10 meters from the riverbank to serve as a linear park, was struck down as invalid because it violated the Presidential Decree No. 1067 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 enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (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.

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 will be used to settle the P20,000 Peso-denominated Notes which will mature on November 10, 2017.

b. On October 30, 2017, all conditions for the completion of the sale of the Parent Company of the shares in MNHPI, as discussed in Note 11, had been complied with and accordingly, the purchase price had been paid.

16. Other Matters

a. Leases with the Philippine National Oil Company (PNOC)
On October 20, 2017, the Parent Company filed with the RTC of Mandaluyong City a complaint against the PNOC 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 second quarter of 2017, slightly faster than the 6.4% growth in 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	2nd Quarter of 2016	1st Quarter of 2017	2nd Quarter of 2017
GDP	7.1	6.4	6.5
By Industry			
Agriculture	(2.0)	4.9	6.3
Industry	7.6	6.3	7.3
Services	8.2	6.7	6.1
By Expenditure			
Household Consumption	7.5	5.8	5.9
Government Consumption	13.5	0.1	7.1
Capital Formation	30.3	10.6	8.6
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 the second quarter of 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 by 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/US$ in second quarter 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 second quarter of 2017 level, 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, based on the data published by the Department of Energy (DOE) growth tapered by 1.0% from 73,861 thousand barrels (MB) in the first half of 2016 to 74,576 MB in the same period this year. Growth due to a favorable business environment (e.g., manageable inflation and strong growth in vehicle sales of 17% as of 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 $50.43 per barrel in the third quarter of 2017 from $43.19 per barrel in the same period last year. Organization of Petroleum Exporting Countries' production cut which started in January 2017 supported the increase in prices. Product cracks also went on an upward trend for Naptha, 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 subjected 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, 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/cocomethyl ester (CME) components, respectively. To produce compliant fuels, the Parent 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 (PNS) for the Euro 4/IV 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.

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