

# **ANNEXES C and D**

**2014 AUDITED FINANCIAL STATEMENTS**

**and**

**INDEX TO FINANCIAL STATEMENTS &  
SUPPLEMENTARY SCHEDULES**

**AUDITED FINANCIAL STATEMENTS**

|  |  |  |  |  |  |   |   |   |   |   |
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**Certificates of Permit to Offer Securities for Sale  
dated 1994, 1995, 2010 and 2014**

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December 31

© 2004 Blackwell Publishing Ltd, *Journal of Internal Medicine* 255: 103–110

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation** (the “Company”) and **Subsidiaries**, is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2014 and 2013**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

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

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

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

Signed this 17th day of March 2015



**SUBSCRIBED AND SWORN TO** before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this MAR 31 2015, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

| Name                      | Competent Evidence of Identity | Date/Place of Issue       |
|---------------------------|--------------------------------|---------------------------|
| Eduardo M. Cojuangco, Jr. | Passport No. XX0410612         | 16 Feb 2012/ DFA Manila   |
| Ramon S. Ang              | Passport No. XX0492943         | 22 Feb 2013/ DFA Manila   |
| Emmanuel E. Erafia        | Passport No. EC2176330         | 23 Sept 2014 / DFA Manila |

Doc. No. 79 ;  
Page No. 17 ;  
Book No. IV ;  
Series of 2015

  
**DON VIC P. QUEZON**  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City  
Appointment No. 0532-14  
Until December 31, 2015  
Attorney's Roll No. 86728  
PTR No. 2278008/1-5-15/Mandaluyong  
Lifetime IUP No. 08924  
MCLE Compliance No. IVAG/14582/3-25-13

# **PETRON CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014, 2013 and 2012**



**R.G. Manabat & Co.**  
The KPMG Center, 9/F  
6787 Ayala Avenue  
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
E-Mail [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

Branches: Subic - Cebu - Bacolod - Iloilo

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Petron Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, 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, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petron Corporation and Subsidiaries as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

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

A handwritten signature in black ink, appearing to be 'Ador C. Mejia', written over a circular stamp or seal.

ADOR C. MEJIA

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

Issued May 9, 2013; valid until May 8, 2016

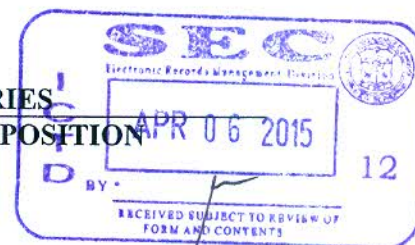
PTR No. 4748117MC

Issued January 5, 2015 at Makati City

March 17, 2015

Makati City, Metro Manila

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



|                                                             |                  | December 31     |                 |
|-------------------------------------------------------------|------------------|-----------------|-----------------|
|                                                             | <i>Note</i>      | 2014            | 2013            |
| <b>ASSETS</b>                                               |                  |                 |                 |
| <b>Current Assets</b>                                       |                  |                 |                 |
| Cash and cash equivalents                                   | 6, 34, 35        | P90,602         | P50,398         |
| Financial assets at fair value through profit or loss       | 7, 34, 35        | 470             | 783             |
| Available-for-sale financial assets                         | 4, 8, 34, 35     | 430             | 458             |
| Trade and other receivables - net                           | 4, 9, 28, 34, 35 | 56,299          | 67,667          |
| Inventories                                                 | 4, 10            | 53,180          | 51,721          |
| Other current assets                                        | 15               | 18,048          | 12,933          |
| <b>Total Current Assets</b>                                 |                  | <b>219,029</b>  | <b>183,960</b>  |
| <b>Noncurrent Assets</b>                                    |                  |                 |                 |
| Available-for-sale financial assets                         | 4, 8, 34, 35     | 451             | 457             |
| Property, plant and equipment - net                         | 4, 12, 37        | 153,650         | 141,647         |
| Investment in an associate                                  | 4, 11            | 1,162           | 885             |
| Investment property - net                                   | 4, 13            | 113             | 114             |
| Deferred tax assets                                         | 4, 27            | 242             | 162             |
| Goodwill                                                    | 4, 14            | 8,921           | 9,386           |
| Other noncurrent assets - net                               | 4, 15, 34, 35    | 7,756           | 20,847          |
| <b>Total Noncurrent Assets</b>                              |                  | <b>172,295</b>  | <b>173,498</b>  |
|                                                             |                  | <b>P391,324</b> | <b>P357,458</b> |
| <b>LIABILITIES AND EQUITY</b>                               |                  |                 |                 |
| <b>Current Liabilities</b>                                  |                  |                 |                 |
| Short-term loans                                            | 16, 34, 35       | P133,388        | P100,071        |
| Liabilities for crude oil and petroleum product importation | 34, 35           | 24,032          | 38,707          |
| Trade and other payables                                    | 17, 28, 34, 35   | 39,136          | 29,291          |
| Derivative liabilities                                      | 34, 35           | 98              | 152             |
| Income tax payable                                          |                  | 73              | 194             |
| Current portion of long-term debt - net                     | 18, 34, 35       | 5,860           | 8,155           |
| <b>Total Current Liabilities</b>                            |                  | <b>202,587</b>  | <b>176,570</b>  |
| <b>Noncurrent Liabilities</b>                               |                  |                 |                 |
| Long-term debt - net of current portion                     | 18, 34, 35       | 66,269          | 58,032          |
| Retirement benefits liability                               | 30               | 2,273           | 820             |
| Deferred tax liabilities                                    | 27               | 3,471           | 4,605           |
| Asset retirement obligation                                 | 4, 19            | 1,659           | 1,004           |
| Other noncurrent liabilities                                | 20, 34, 35       | 1,373           | 4,539           |
| <b>Total Noncurrent Liabilities</b>                         |                  | <b>75,045</b>   | <b>69,000</b>   |
| <b>Total Liabilities</b>                                    |                  | <b>277,632</b>  | <b>245,570</b>  |

Forward

|                                                                          |             | <b>December 31</b> |             |
|--------------------------------------------------------------------------|-------------|--------------------|-------------|
|                                                                          | <i>Note</i> | <b>2014</b>        | <b>2013</b> |
| <b>Equity Attributable to Equity Holders of the Parent Company</b>       | <b>21</b>   |                    |             |
| Capital stock                                                            |             | <b>P9,485</b>      | P9,475      |
| Additional paid-in capital                                               |             | <b>19,653</b>      | 9,764       |
| Undated subordinated capital securities                                  |             | <b>30,546</b>      | 30,546      |
| Retained earnings                                                        |             | <b>40,815</b>      | 42,658      |
| Reserve for retirement plan                                              |             | <b>(1,018)</b>     | 2,242       |
| Other reserves                                                           |             | <b>(2,149)</b>     | (721)       |
| <b>Total Equity Attributable to Equity Holders of the Parent Company</b> |             | <b>97,332</b>      | 93,964      |
| <b>Non-controlling Interests</b>                                         |             | <b>16,360</b>      | 17,924      |
| <b>Total Equity</b>                                                      |             | <b>113,692</b>     | 111,888     |
|                                                                          |             | <b>P391,324</b>    | P357,458    |

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(Amounts in Million Pesos, Except Per Share Data)

|                                                                                                                            | <i>Note</i> | <b>2014</b>     | 2013     | 2012     |
|----------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|----------|----------|
| <b>SALES</b>                                                                                                               | 28, 37      | <b>P482,535</b> | P463,638 | P424,795 |
| <b>COST OF GOODS SOLD</b>                                                                                                  | 22          | <b>463,100</b>  | 440,479  | 406,798  |
| <b>GROSS PROFIT</b>                                                                                                        |             | <b>19,435</b>   | 23,159   | 17,997   |
| <b>SELLING AND<br/>ADMINISTRATIVE<br/>EXPENSES</b>                                                                         | 23          | <b>(11,830)</b> | (11,475) | (10,137) |
| <b>INTEREST EXPENSE AND<br/>OTHER FINANCING<br/>CHARGES</b>                                                                | 26, 37      | <b>(5,528)</b>  | (5,462)  | (7,508)  |
| <b>INTEREST INCOME</b>                                                                                                     | 26, 37      | <b>844</b>      | 1,285    | 1,121    |
| <b>SHARE IN NET<br/>INCOME/(LOSS) OF<br/>ASSOCIATES</b>                                                                    | 11          | <b>102</b>      | 110      | (11)     |
| <b>OTHER INCOME (EXPENSES) -<br/>Net</b>                                                                                   | 26          | <b>790</b>      | (675)    | 777      |
|                                                                                                                            |             | <b>(15,622)</b> | (16,217) | (15,758) |
| <b>INCOME BEFORE INCOME<br/>TAX</b>                                                                                        |             | <b>3,813</b>    | 6,942    | 2,239    |
| <b>INCOME TAX EXPENSE</b>                                                                                                  | 27, 36, 37  | <b>804</b>      | 1,850    | 459      |
| <b>NET INCOME</b>                                                                                                          |             | <b>P3,009</b>   | P5,092   | P1,780   |
| <b>Attributable to:</b>                                                                                                    |             |                 |          |          |
| Equity holders of the Parent<br>Company                                                                                    | 32          | <b>P3,320</b>   | P5,247   | P1,701   |
| Non-controlling interests                                                                                                  |             | <b>(311)</b>    | (155)    | 79       |
|                                                                                                                            |             | <b>P3,009</b>   | P5,092   | P1,780   |
| <b>BASIC/DILUTED EARNINGS<br/>(LOSS) PER COMMON<br/>SHARE ATTRIBUTABLE TO<br/>EQUITY HOLDERS OF THE<br/>PARENT COMPANY</b> | 32          | <b>(P0.15)</b>  | P0.28    | P0.08    |

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(Amounts in Million Pesos)

|                                                                             | <i>Note</i> | <b>2014</b>     | 2013   | 2012     |
|-----------------------------------------------------------------------------|-------------|-----------------|--------|----------|
| <b>NET INCOME</b>                                                           |             | <b>P3,009</b>   | P5,092 | P1,780   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                    |             |                 |        |          |
| <b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>                |             |                 |        |          |
| Equity reserve for retirement plan                                          | 30          | <b>(4,656)</b>  | 3,232  | (3,086)  |
| Income tax benefit (expense)                                                |             | <b>1,396</b>    | (957)  | 914      |
|                                                                             |             | <b>(3,260)</b>  | 2,275  | (2,172)  |
| <b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>                     |             |                 |        |          |
| Exchange differences on translation of foreign operations                   | 21          | <b>(1,475)</b>  | 589    | (1,214)  |
| Unrealized fair value gains/(losses) on available-for-sale financial assets | 8, 21       | <b>(25)</b>     | (31)   | 7        |
| Income tax benefit                                                          |             | <b>2</b>        | 2      | 3        |
|                                                                             |             | <b>(1,498)</b>  | 560    | (1,204)  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                    |             | <b>(4,758)</b>  | 2,835  | (3,376)  |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>                       |             | <b>(P1,749)</b> | P7,927 | (P1,596) |
| <b>Attributable to:</b>                                                     |             |                 |        |          |
| Equity holders of the Parent Company                                        |             | <b>(P1,368)</b> | P6,971 | (P868)   |
| Non-controlling interests                                                   |             | <b>(381)</b>    | 956    | (728)    |
|                                                                             |             | <b>(P1,749)</b> | P7,927 | (P1,596) |

*See Notes to the Consolidated Financial Statements.*

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(Amounts in Million Pesos)

|                                                                                | <i>Note</i> | Equity Attributable to Equity Holders of the Parent Company |                            |                                         |                   |                |                             | Total           | Non-controlling Interests | Total Equity    |
|--------------------------------------------------------------------------------|-------------|-------------------------------------------------------------|----------------------------|-----------------------------------------|-------------------|----------------|-----------------------------|-----------------|---------------------------|-----------------|
|                                                                                |             | Capital Stock                                               | Additional Paid-in Capital | Undated Subordinated Capital Securities | Retained Earnings |                | Reserve for Retirement Plan | Other Reserves  |                           |                 |
|                                                                                |             |                                                             |                            |                                         | Appropriated      | Unappropriated |                             |                 |                           |                 |
| <b>As of January 1, 2014</b>                                                   |             | <b>P9,475</b>                                               | <b>P9,764</b>              | <b>P30,546</b>                          | <b>P25,171</b>    | <b>P17,487</b> | <b>P2,242</b>               | <b>(P721)</b>   | <b>P93,964</b>            | <b>P111,888</b> |
| 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)                   | (1,475)         |
| Equity reserve for retirement plan - net of tax                                |             | -                                                           | -                          | -                                       | -                 | -              | (3,260)                     | -               | (3,260)                   | (3,260)         |
| Other comprehensive income (loss)                                              |             | -                                                           | -                          | -                                       | -                 | -              | (3,260)                     | (1,428)         | (4,688)                   | (4,758)         |
| Net income (loss) for the year                                                 |             | -                                                           | -                          | -                                       | -                 | 3,320          | -                           | -               | 3,320                     | 3,009           |
| <b>Total comprehensive income (loss) for the year</b>                          |             | <b>-</b>                                                    | <b>-</b>                   | <b>-</b>                                | <b>-</b>          | <b>3,320</b>   | <b>(3,260)</b>              | <b>(1,428)</b>  | <b>(1,368)</b>            | <b>(1,749)</b>  |
| Cash dividends and distributions                                               | 21          | -                                                           | -                          | -                                       | -                 | (5,163)        | -                           | -               | (5,163)                   | (5,163)         |
| Issuance of preferred shares                                                   | 21          | 10                                                          | 9,889                      | -                                       | -                 | -              | -                           | -               | 9,899                     | 9,899           |
| Deductions from non-controlling interests and others                           |             | -                                                           | -                          | -                                       | -                 | -              | -                           | -               | -                         | (1,183)         |
| Transactions with owners                                                       |             | 10                                                          | 9,889                      | -                                       | -                 | (5,163)        | -                           | -               | 4,736                     | 3,553           |
| <b>As of December 31, 2014</b>                                                 |             | <b>P9,485</b>                                               | <b>P19,653</b>             | <b>P30,546</b>                          | <b>P25,171</b>    | <b>P15,644</b> | <b>(P1,018)</b>             | <b>(P2,149)</b> | <b>P97,332</b>            | <b>P113,692</b> |

Forward

|                                                                                | Equity Attributable to Equity Holders of the Parent Company |               |                 |                                 |                   |                |                 |                |         |                       |          |
|--------------------------------------------------------------------------------|-------------------------------------------------------------|---------------|-----------------|---------------------------------|-------------------|----------------|-----------------|----------------|---------|-----------------------|----------|
|                                                                                |                                                             |               | Additional      | Undated                         | Retained Earnings |                | Reserve for     |                |         | Non-                  | Total    |
|                                                                                | Note                                                        | Capital Stock | Paid-in Capital | Subordinated Capital Securities | Appropriated      | Unappropriated | Retirement Plan | Other Reserves | Total   | controlling Interests | Equity   |
| As of January 1, 2013                                                          |                                                             | P9,475        | P9,764          | P -                             | P25,171           | P15,336        | P10             | (P201)         | P59,555 | P17,348               | P76,903  |
| Unrealized fair value loss on available-for-sale financial assets - net of tax |                                                             | -             | -               | -                               | -                 | -              | -               | (29)           | (29)    | -                     | (29)     |
| Exchange differences on translation of foreign operations                      |                                                             | -             | -               | -                               | -                 | -              | -               | (479)          | (479)   | 1,068                 | 589      |
| Equity reserve for retirement plan - net of tax                                |                                                             | -             | -               | -                               | -                 | -              | 2,232           | -              | 2,232   | 43                    | 2,275    |
| Other comprehensive income (loss)                                              |                                                             | -             | -               | -                               | -                 | -              | 2,232           | (508)          | 1,724   | 1,111                 | 2,835    |
| Net income (loss) for the year                                                 |                                                             | -             | -               | -                               | -                 | 5,247          | -               | -              | 5,247   | (155)                 | 5,092    |
| Total comprehensive income (loss) for the year                                 |                                                             | -             | -               | -                               | -                 | 5,247          | 2,232           | (508)          | 6,971   | 956                   | 7,927    |
| Cash dividends and distributions                                               | 21                                                          | -             | -               | -                               | -                 | (3,096)        | -               | -              | (3,096) | -                     | (3,096)  |
| Issuance of undated subordinated capital securities                            | 21                                                          | -             | -               | 30,546                          | -                 | -              | -               | -              | 30,546  | -                     | 30,546   |
| Net deductions to non-controlling interests and others                         |                                                             | -             | -               | -                               | -                 | -              | -               | (12)           | (12)    | (380)                 | (392)    |
| Transactions with owners                                                       |                                                             | -             | -               | 30,546                          | -                 | (3,096)        | -               | (12)           | 27,438  | (380)                 | 27,058   |
| As of December 31, 2013                                                        |                                                             | P9,475        | P9,764          | P30,546                         | P25,171           | P17,487        | P2,242          | (P721)         | P93,964 | P17,924               | P111,888 |

Forward

|                                                                                   |      | Equity Attributable to Equity Holders of the Parent Company |                                  |                   |                     |                                   | Other<br>Reserves | Total   | Non-<br>controlling<br>Interests | Total<br>Equity |
|-----------------------------------------------------------------------------------|------|-------------------------------------------------------------|----------------------------------|-------------------|---------------------|-----------------------------------|-------------------|---------|----------------------------------|-----------------|
|                                                                                   |      | Capital<br>Stock                                            | Additional<br>Paid-in<br>Capital | Retained Earnings |                     | Reserve for<br>Retirement<br>Plan |                   |         |                                  |                 |
|                                                                                   | Note |                                                             |                                  | Appro-<br>priated | Unappro-<br>priated |                                   |                   |         |                                  |                 |
| As of January 1, 2012                                                             |      | P9,475                                                      | P9,764                           | P25,171           | P15,524             | P2,189                            | P70               | P62,193 | P290                             | P62,483         |
| Unrealized fair value gain on available-for-sale<br>financial assets - net of tax |      | -                                                           | -                                | -                 | -                   | -                                 | 10                | 10      | -                                | 10              |
| Exchange differences on translation of foreign<br>operations                      |      | -                                                           | -                                | -                 | -                   | -                                 | (446)             | (446)   | (768)                            | (1,214)         |
| Equity reserve for retirement plan - net of tax                                   |      | -                                                           | -                                | -                 | -                   | (2,133)                           | -                 | (2,133) | (39)                             | (2,172)         |
| Other comprehensive loss                                                          |      | -                                                           | -                                | -                 | -                   | (2,133)                           | (436)             | (2,569) | (807)                            | (3,376)         |
| Net income for the year                                                           |      | -                                                           | -                                | -                 | 1,701               | -                                 | -                 | 1,701   | 79                               | 1,780           |
| Total comprehensive income (loss) for the year                                    |      | -                                                           | -                                | -                 | 1,701               | (2,133)                           | (436)             | (868)   | (728)                            | (1,596)         |
| Cash dividends                                                                    | 21   | -                                                           | -                                | -                 | (1,890)             | -                                 | -                 | (1,890) | -                                | (1,890)         |
| Adjustment due to PFRS 3                                                          | 3    | -                                                           | -                                | -                 | -                   | -                                 | 165               | 165     | 531                              | 696             |
| Net additions to non-controlling interests and others                             |      | -                                                           | -                                | -                 | 1                   | (46)                              | -                 | (45)    | 17,255                           | 17,210          |
| Transactions with owners                                                          |      | -                                                           | -                                | -                 | (1,889)             | (46)                              | 165               | (1,770) | 17,786                           | 16,016          |
| As of December 31, 2012                                                           |      | P9,475                                                      | P9,764                           | P25,171           | P15,336             | P10                               | (P201)            | P59,555 | P17,348                          | P76,903         |

See Notes to the Consolidated Financial Statements.

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**  
(Amounts in Million Pesos)

|                                                                                       | <i>Note</i> | <b>2014</b>     | 2013     | 2012     |
|---------------------------------------------------------------------------------------|-------------|-----------------|----------|----------|
| <b>CASH FLOWS FROM</b>                                                                |             |                 |          |          |
| <b>OPERATING ACTIVITIES</b>                                                           |             |                 |          |          |
| Income before income tax                                                              |             | <b>P3,813</b>   | P6,942   | P2,239   |
| Adjustments for:                                                                      |             |                 |          |          |
| Share in net (income)/losses of associates                                            | 11          | <b>(102)</b>    | (110)    | 11       |
| Retirement benefits cost                                                              | 30          | <b>91</b>       | 323      | 161      |
| Interest expense and other financing charges                                          | 26          | <b>5,528</b>    | 5,462    | 7,508    |
| Depreciation and amortization                                                         | 25          | <b>6,033</b>    | 5,806    | 5,113    |
| Interest income                                                                       | 26          | <b>(844)</b>    | (1,285)  | (1,121)  |
| Unrealized foreign exchange losses (gains) - net                                      |             | <b>(202)</b>    | 3,003    | (556)    |
| Other gain                                                                            |             | <b>(1,855)</b>  | (1,153)  | (1,116)  |
| Operating income before working capital changes                                       |             | <b>12,462</b>   | 18,988   | 12,239   |
| Changes in noncash assets, certain current liabilities and others                     | 33          | <b>(6,399)</b>  | 22,410   | (3,828)  |
| Interest paid                                                                         |             | <b>(8,061)</b>  | (8,370)  | (7,127)  |
| Income taxes paid                                                                     |             | <b>(498)</b>    | (608)    | (616)    |
| Interest received                                                                     |             | <b>1,920</b>    | 1,332    | 1,186    |
| Net cash flows provided by (used in) operating activities                             |             | <b>(576)</b>    | 33,752   | 1,854    |
| <b>CASH FLOWS FROM</b>                                                                |             |                 |          |          |
| <b>INVESTING ACTIVITIES</b>                                                           |             |                 |          |          |
| Additions to property, plant and equipment                                            | 12          | <b>(11,892)</b> | (51,585) | (41,848) |
| Proceeds from sale of property, plant and equipment                                   |             | <b>154</b>      | 15,185   | 703      |
| Proceeds from sale of an investment property previously classified as "held for sale" | 13          | -               | 1,167    | -        |
| Decrease (increase) in:                                                               |             |                 |          |          |
| Other receivables                                                                     |             | <b>515</b>      | (4,880)  | (15,498) |
| Other noncurrent assets                                                               |             | <b>7,212</b>    | (3,018)  | 11,803   |
| Reductions from (additions to):                                                       |             |                 |          |          |
| Financial assets at fair value through profit or loss                                 |             | <b>332</b>      | (626)    | 29       |
| Investment in an associate                                                            |             | <b>(175)</b>    | -        | (14)     |
| Available-for-sale financial assets                                                   |             | <b>34</b>       | (4)      | 125      |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired                |             | -               | 432      | (17,843) |
| Acquisition of non-controlling interest                                               |             | -               | -        | (1,138)  |
| Net cash flows used in investing activities                                           |             | <b>(3,820)</b>  | (43,329) | (63,681) |

Forward

|                                                                                     | <i>Note</i> | <b>2014</b>      | 2013      | 2012      |
|-------------------------------------------------------------------------------------|-------------|------------------|-----------|-----------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                         |             |                  |           |           |
| Proceeds from availment of loans                                                    |             | <b>P360,309</b>  | P349,212  | P335,351  |
| Payments of:                                                                        |             |                  |           |           |
| Loans                                                                               |             | <b>(320,949)</b> | (345,180) | (283,459) |
| Cash dividends and distributions                                                    | 21          | <b>(5,676)</b>   | (4,098)   | (2,436)   |
| Proceeds from issuance of undated subordinated capital securities                   |             | -                | 30,546    | -         |
| Proceeds from issuance of subsidiary's preferred share to non-controlling interests | 21          | -                | -         | 14,216    |
| Proceeds from issuance of Parent Company's preferred shares                         |             | <b>9,899</b>     | -         | -         |
| Increase in other noncurrent liabilities                                            |             | <b>905</b>       | 2,059     | 1,735     |
| Net cash flows provided by financing activities                                     |             | <b>44,488</b>    | 32,539    | 65,407    |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                |             |                  |           |           |
|                                                                                     |             | <b>112</b>       | 471       | (438)     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                    |             |                  |           |           |
|                                                                                     |             | <b>40,204</b>    | 23,433    | 3,142     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                               |             |                  |           |           |
|                                                                                     |             | <b>50,398</b>    | 26,965    | 23,823    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                     |             |                  |           |           |
|                                                                                     | 6           | <b>P90,602</b>   | P50,398   | P26,965   |

*See Notes to the Consolidated Financial Statements.*

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## **PETRON CORPORATION AND SUBSIDIARIES**

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### **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)

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

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and is registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. The accompanying consolidated financial statements comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the “Group”) and the Group’s interest in associate and jointly controlled entity. Petron is the largest oil refining and marketing company in the Philippines supplying nearly 40% of the country’s fuel requirements. Petron’s vision is 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 International Standards Organization (ISO) 14001 - certified refinery processes crude oil into a full range of petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, mixed xylene and propylene. From the refinery, Petron moves its products mainly by sea to Petron’s 31 depots and terminals situated all over the country. Through this nationwide network, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is Petron’s largest customer. Petron also supplies jet fuel at key airports to international and domestic carriers.

With close to 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 our 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, 7 storage facilities and network of 560 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, 2014, the Parent Company’s public float stood at 23.77%.

The intermediate parent company of Petron is San Miguel Corporation, a company incorporated in the Philippines and its ultimate parent company is Top Frontier Investments Holdings, Inc. which is incorporated in the Philippines.

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

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## **2. 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 authorized for issue by the BOD on March 17, 2015.

### 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 asset/liability                                       | Fair value of plan assets less the present value of the defined benefit obligation, limited by asset ceiling |

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also 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 |
|----------------------------------------------------------------|-----------------------------|-----------------------|--------------------------|
|                                                                | 2014                        | 2013                  |                          |
| Overseas Ventures Insurance Corporation (Ovincor)              | <b>100.00</b>               | 100.00                | Bermuda                  |
| Petrogen Insurance Corporation (Petrogen)                      | <b>100.00</b>               | 100.00                | Philippines              |
| Petron Freeport Corporation (PFC)                              | <b>100.00</b>               | 100.00                | Philippines              |
| Petron Singapore Trading Pte., Ltd. (PSTPL)                    | <b>100.00</b>               | 100.00                | Singapore                |
| Petron Marketing Corporation (PMC)                             | <b>100.00</b>               | 100.00                | Philippines              |
| New Ventures Realty Corporation (NVRC) and Subsidiaries        | <b>40.00</b>                | 40.00                 | Philippines              |
| Limay Energen Corporation (LEC)                                | <b>100.00</b>               | 100.00                | Philippines              |
| Petron Global Limited (PGL)                                    | <b>100.00<sup>(a)</sup></b> | 100.00 <sup>(a)</sup> | British Virgin Islands   |
| Petron Finance (Labuan) Limited                                | <b>100.00</b>               | 100.00                | Malaysia                 |
| Petron Oil and Gas Mauritius Ltd. and Subsidiaries (Mauritius) | <b>100.00</b>               | 100.00                | Mauritius                |
| Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries        | <b>45.85</b>                | 45.85                 | Hong Kong                |

<sup>(a)</sup> Ownership represents 100% of PGL's common shares.

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. NVRC is considered as a subsidiary of Petron despite owning only 40% as Petron 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. Petron 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 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.

On February 24, 2012, Petron acquired PGL, a company incorporated in the British Virgin Islands. PGL has issued an aggregate of 49,622,176 common shares 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 (Note 14).

In March 2012, the Parent Company through its indirect offshore subsidiary Petron Oil and Gas International Sdn. Bhd. (POGI), acquired Esso Malaysia Berhad (EMB), ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) (POGI, EMB, EMMSB, and EMBSB are collectively hereinafter referred to as “Petron Malaysia”). As of December 31, 2014, POGI owns 73.4% of EMB and 100% for both EMMSB and EMBSB. EMB, EMMSB and EMBSB were later renamed Petron Malaysia Refining & Marketing Bhd (PMRMB), Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), respectively (Note 14).

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.

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 consolidated financial statements 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 Group in NVRC, Mauritius, PGL and PAHL.

A change in the ownership interest of a subsidiary, without a 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.

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### 3. Significant Accounting Policies

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

#### Adoption of New or Revised Standards and Amendments to Standards

The Group has adopted the following amendments to standards and new interpretation starting January 1, 2014 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretation did not have any significant impact on the Group's consolidated financial statements.

#### *Adopted Effective 2014*

- **Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32*).** These amendments clarify that:
  - an entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and
  - gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.
- ***Recoverable Amount Disclosures for Non-Financial Assets (Amendments to PAS 36).*** These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets.
- ***Philippine Interpretation IFRIC 21 Levies.*** This interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12 *Income Taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope.

#### *New or Revised Standards and Amendments to Standards Not Yet Adopted*

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. 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:

- *Defined Benefit Plans: Employee Contributions (Amendments to PAS 19, Employee Benefits).* The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e., employee contributions that are calculated according to a fixed percentage of salary). The adoption of the amendments is required to be applied retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

The amendments apply retrospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles -* Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group.

- *Classification and measurement of contingent consideration (Amendment to PFRS 3).* The amendment clarifies the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to *PAS 32 Financial Instruments: Presentation*, rather than to any other PFRSs. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss.

Consequential amendments are also made to *PAS 39 Financial Instruments: Recognition and Measurement* and *PFRS 9 Financial Instruments* to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, *PAS 37 Provisions, Contingent Liabilities and Contingent Assets* is amended to exclude provisions related to contingent consideration. The adoption of the amendments is required to be applied for annual periods beginning on or after July 1, 2014.

- *Scope exclusion for the formation of joint arrangements (Amendment to PFRS 3).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in *PFRS 11 Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves.

- *Disclosures on the aggregation of operating segments (Amendment to PFRS 8).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- *Measurement of short-term receivables and payables (Amendment to PFRS 13).* The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The adoption of the amendments is required to be applied for annual periods beginning on or after July 1, 2014.
- *Scope of portfolio exception (Amendment to PFRS 13).* The scope of the PFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of PAS 39 and PFRS 9.

PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32 - e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment is required to be retrospectively applied for annual periods beginning on or after July 1, 2014.

- *Definition of 'Related Party' (Amendments to PAS 24, Related Parties).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans. The amendment is required to be applied prospectively for annual periods beginning on or after July 1, 2014.
- *Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.

*To be Adopted 2016*

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

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

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

- *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.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Group's consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.
- *Changes in method for disposal (Amendment to PFRS 5).* PFRS 5 is amended to clarify that:
  - if an entity changes the method of disposal of an asset (or disposal group) – i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag – then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and
  - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

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

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

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

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

- *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 assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

#### Financial Assets and Financial Liabilities

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

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

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

*‘Day 1’ Profit.* Where the transaction price in a non-active market is different from the fair value of 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 and embedded derivatives are recognized under the caption marked-to-market gains (losses) included as part of “Other income (expenses)” in the consolidated statements of income. Unrealized gains or losses from changes in fair value of commodity price swaps are recognized under the caption hedging gains - net included as part of “Other income (expenses)” in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized under “Others” included as part of “Cost of goods sold” in the consolidated statements of income.

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

The Group’s derivative assets and financial assets at FVPL 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 as at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” 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 non-current deposits are included in 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 measurement, these investments are measured at amortized cost using the effective interest rate 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, 2014 and 2013.

*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 rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

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

#### Debt Issue Costs

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

## 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 at December 31, 2014 and 2013. 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 the 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 Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

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

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

#### Offsetting Financial Instruments

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

### 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, crude oil, and tires, batteries and accessories (TBA), the net realizable value 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, waxes and solvents), crude oil, and other products. Cost is determined using the moving-average method in costing lubes and greases, waxes and solvents, 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 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 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 (losses) of associates" 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 (losses) of associates" 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 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 a Joint Venture

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), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, is accounted for under the equity method of accounting. The interest in joint venture 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 venture, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint venture presented as part of "Other income (expenses) - others" account. The Group has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Results of operations as well as financial position balances of PDSI were less than 1% of the consolidated values 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, 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 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 related facilities      | 2 - 50                                               |
| Refinery and plant equipment          | 5 - 33                                               |
| Service stations and other equipment  | 1 1/2 - 33                                           |
| Computers, office and motor equipment | 2 - 20                                               |
| Land and leasehold improvements       | 10 or the term of the lease,<br>whichever is shorter |

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

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods 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 when either 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 office units 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, 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 office units 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, residual values 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 or inventories, 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 period and the amortization method used for an intangible asset with a finite useful life are reviewed at least 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, 2014 and 2013, 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, for Powerburn 2T, and for 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” 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 and intangible assets with finite useful lives 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 amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, 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 LPG cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an amount equivalent to 100% of the acquisition cost of the cylinders.

The Group 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 to 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.

### Undated Subordinated Capital Securities

Undated subordinated capital securities 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.

#### 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.

#### Operating Lease

*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 are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. 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 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. Majority of its subsidiaries have separate unfunded, non-contributory, 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 any 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 period. 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 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.

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

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

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

#### Foreign Currency

##### *Foreign Currency Translations*

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

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

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

### *Foreign Operations*

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

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

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

### Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

#### Assets Held for Sale

Noncurrent assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, the assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment properties or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment losses.

Intangible assets, investment property, and property, plant and equipment once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

When an asset no longer meets the criteria to be classified as held for sale or distribution, the Group shall cease to classify such as held for sale. Transfers from assets held for sale or distribution are measured at the lower of its carrying amount before the asset was classified as held for sale or distribution, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale or distribution, and its recoverable amount at the date of the subsequent decision not to sell.

#### Related Parties

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

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

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

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

#### Operating Segments

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

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

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

#### Contingencies

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

#### Events After the Reporting Date

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

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#### **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:

*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.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or a 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 P1,145, P1,155 and P977 in 2014, 2013 and 2012, respectively.

Rent expense recognized in the consolidated statements of income amounted to P1,248, P1,149 and P829 in 2014, 2013 and 2012, respectively.

*Evaluating Control over its Investees.* Although the Parent Company owns less than 50% of the voting rights on some of its investees, 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.

*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 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 2014, 2013 and 2012 the Group opted to continue claiming itemized standard deductions except for Petrogen, Las Lucas Construction and Development Corporation (LLCDC) and Parkville Estates and Development Corporation (PEDC), which are subsidiaries of NVRC, 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 consolidated financial position and consolidated 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. No accruals were made in relation to these proceedings (Note 39).

#### 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 included 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 P2, P3 and P13 in 2014, 2013 and 2012, respectively (Notes 9 and 23). Receivables written-off amounted to P155 in 2014 and P21 in 2013 (Note 9).

The carrying value of receivables, amounted to P56,299 and P67,667 as of December 31, 2014 and 2013, respectively (Note 9).

*Net Realizable Values of Inventories.* In determining the net realizable values 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 P53,180 and P51,721 as at the end of 2014 and 2013, respectively (Note 10), 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 P798 and P702 in 2014 and 2013, respectively (Note 10).

*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 2014 and 2013, the Group provided an additional allowance amounting to P14 and P33, respectively (Note 10).

*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 (i.e., 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 P65,236 and P60,592 as of December 31, 2014 and 2013, respectively (Notes 12, 13 and 15). Property, plant and equipment, net of accumulated depreciation and amortization amounted to P153,650 and P141,647 as of December 31, 2014 and 2013, respectively (Note 12). Investment property, net of accumulated depreciation amounted to P113 and P114 as of December 31, 2014 and 2013, respectively (Note 13). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P221 and P322 as of December 31, 2014 and 2013 respectively (Note 15).

*Impairment of AFS Financial Assets.* AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

There were no impairment losses recognized in 2014, 2013 and 2012.

The carrying amount of AFS financial assets amounted to P881 and P915 as of December 31, 2014 and 2013, respectively (Note 8).

*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 P156 as of December 31, 2014 and 2013 (Note 13).

*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 has been determined based on value in use using discounted cash flows (DCF). Assumptions used in the DCF include terminal growth rate of 3.0% in 2014 and 2013 and discount rates of 7.8% and 8.0% in 2014 and 2013, respectively (Note 14).

No impairment losses were recognized in 2014 and 2013.

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.

*Acquisition Accounting.* The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired property, plant and equipment at the date of the acquisition. Moreover, the useful lives of the acquired property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The Group has completed the purchase price allocation exercise on acquisitions made in 2012 (Note 14). Total combined carrying amounts of goodwill arising from business combinations amounted to P8,921 and P9,386 as at December 31, 2014 and 2013, respectively (Note 14).

*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 P242 and P162 as of December 31, 2014 and 2013, respectively (Note 27).

*Impairment of Other Non-financial Assets.* PFRS requires that an impairment review be performed on investments in associate, property, plant and equipment, intangible assets and investment property 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.

There were no impairment losses on other non-financial assets recognized in 2014, 2013 and 2012.

The aggregate carrying amount of investments in associate, property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P155,146 and P142,968 as of December 31, 2014 and 2013, respectively (Notes 11, 12, 13 and 15).

*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 liability.

Other key assumptions for retirement liabilities 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.

*Asset Retirement Obligation.* The Group has an ARO arising from leased service stations, depots, blending plant, and franchised store and locator in Carmen. 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 5.404% to 9.81% 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 Group also has an ARO arising from its refinery. Such obligation, with circumstance during the year making it possible to be quantified, was recognized in the Parent Company's books in 2014. Thus, ARO amounting to P1,659 as of December 31, 2014 covers the refinery, leased service stations, depots, blending plant, and franchised store while ARO amounting to P1,004 as of December 31, 2013 covers only the Group's leased service stations, depots, blending plant, and franchised store (Note 19).

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## 5. Sale of Petron Megaplaza

Petron had properties consisting of office units located at Petron Mega Plaza with a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking spaces. On December 1, 2010, the BOD approved the sale of these properties to provide cash flows for various projects. Accordingly, the investment property, was presented as "Assets held for sale" in 2010. On May 2, 2011, the Parent Company sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking spaces, with a total book value of P57. In September 2011, it was reclassified back to "Investment property" account in view of the fact that the remaining floors are no longer held for sale and have already been occupied by tenants (Note 13).

During the latter part of 2012, a prospective buyer tendered an offer to purchase the remaining Petron Mega Plaza units and parking spaces. The management made a counter offer in December 2012 effectively rendering the Petron Mega Plaza units and parking spaces, with a carrying amount of P588 as held for sale and consequently reclassified it to "Assets held for sale" account in the consolidated statements of financial position in 2012 (Note 13). The sale was consummated by the second quarter of 2013 and a gain of P580 was recognized in the consolidated statements of income in 2013 as part of other income (Note 26).

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## 6. Cash and Cash Equivalents

This account consists of:

|                       | <i>Note</i>   | <b>2014</b>    | 2013    |
|-----------------------|---------------|----------------|---------|
| Cash on hand          |               | <b>P2,696</b>  | P4,042  |
| Cash in banks         |               | <b>8,198</b>   | 6,747   |
| Short-term placements |               | <b>79,708</b>  | 39,609  |
|                       | <i>34, 35</i> | <b>P90,602</b> | P50,398 |

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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 0.01% to 3.50% in 2014 and 0.01% to 5.00% in 2013.

## 7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

|                               | <i>Note</i> | <b>2014</b> | 2013 |
|-------------------------------|-------------|-------------|------|
| Proprietary membership shares | 34, 35      | <b>P136</b> | P117 |
| Derivative assets             | 34, 35      | <b>334</b>  | 666  |
|                               |             | <b>P470</b> | P783 |

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

Changes in fair value recognized in 2014, 2013 and 2012 amounted to P19, (P29) and (P22), respectively (Note 26).

## 8. Available-for-Sale Financial Assets

This account consists of:

|                       | <b>2014</b> | 2013 |
|-----------------------|-------------|------|
| Government securities | <b>P372</b> | P757 |
| Other debt securities | <b>509</b>  | 158  |
|                       | <b>881</b>  | 915  |
| Less: current portion | <b>430</b>  | 458  |
|                       | <b>P451</b> | P457 |

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 6% to 8.875% in 2014 and 2013 (Note 26).

Ovincor's ROP9 bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates of 8.25% to 8.875%

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

|                                       | <i>Note</i> | <b>2014</b> | 2013 |
|---------------------------------------|-------------|-------------|------|
| Due in one year or less               |             | <b>P430</b> | P458 |
| Due after one year through five years |             | <b>451</b>  | 457  |
|                                       | 34, 35      | <b>P881</b> | P915 |

The reconciliation of the carrying amounts of available-for-sale financial assets as of December 31 follows:

|                                 | 2014         | 2013 |
|---------------------------------|--------------|------|
| Balance at beginning of year    | <b>P915</b>  | P911 |
| Additions                       | <b>461</b>   | 56   |
| Disposals                       | <b>(457)</b> | (50) |
| Amortization of premium         | <b>(17)</b>  | (36) |
| Fair value loss                 | <b>(23)</b>  | (29) |
| Currency translation adjustment | <b>2</b>     | 63   |
| Balance at end of year          | <b>P881</b>  | P915 |

## 9. Trade and Other Receivables

This account consists of:

|                                                        | <i>Note</i> | 2014           | 2013    |
|--------------------------------------------------------|-------------|----------------|---------|
| Trade                                                  | 34          | <b>P17,927</b> | P26,616 |
| Related parties - trade                                | 28, 34      | <b>737</b>     | 3,158   |
| Allowance for impairment loss on trade receivables     |             | <b>(800)</b>   | (972)   |
|                                                        |             | <b>17,864</b>  | 28,802  |
| Government                                             |             | <b>23,021</b>  | 27,856  |
| Related parties - non-trade                            | 28          | <b>4,808</b>   | 5,536   |
| Others                                                 |             | <b>10,900</b>  | 5,767   |
| Allowance for impairment loss on non-trade receivables |             | <b>(294)</b>   | (294)   |
|                                                        |             | <b>38,435</b>  | 38,865  |
|                                                        | 34, 35      | <b>P56,299</b> | P67,667 |

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 subsidies receivable from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P4,252 and P6,296 as of December 31, 2014 and 2013, 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 PCERP.

Receivables - others mainly consist of receivables relating to creditable withholding tax, tax certificates on product replenishment and duties.

A reconciliation of the allowance for impairment at the beginning and end of 2014 and 2013 is shown below:

|                                                   | <i>Note</i> | <b>2014</b>   | <b>2013</b> |
|---------------------------------------------------|-------------|---------------|-------------|
| Balance at beginning of year                      |             | <b>P1,278</b> | P1,371      |
| Additions                                         | 23          | <b>2</b>      | 3           |
| Write off                                         |             | <b>(155)</b>  | (21)        |
| Interest income on accretion                      |             | -             | (2)         |
| Currency translation adjustment                   |             | <b>(2)</b>    | -           |
| Reversals                                         |             | <b>(14)</b>   | (73)        |
| Balance at end of year                            |             | <b>1,109</b>  | 1,278       |
| Less noncurrent portion for long-term receivables | 15          | <b>15</b>     | 12          |
|                                                   |             | <b>P1,094</b> | P1,266      |

As of December 31, 2014 and 2013, the age of past due but not impaired trade accounts receivable (TAR) is as follows (Note 34):

|                          | <b>Past Due but not Impaired</b> |                          |                          |                         | <b>Total</b>  |
|--------------------------|----------------------------------|--------------------------|--------------------------|-------------------------|---------------|
|                          | <b>Within<br/>30 days</b>        | <b>31 to 60<br/>Days</b> | <b>61 to 90<br/>Days</b> | <b>Over 90<br/>Days</b> |               |
| <b>December 31, 2014</b> |                                  |                          |                          |                         |               |
| Reseller                 | <b>P103</b>                      | <b>P29</b>               | <b>P3</b>                | <b>P9</b>               | <b>P144</b>   |
| Lubes                    | <b>9</b>                         | <b>17</b>                | -                        | -                       | <b>26</b>     |
| Gasul                    | <b>3</b>                         | <b>33</b>                | <b>19</b>                | -                       | <b>55</b>     |
| Industrial               | <b>37</b>                        | <b>1,208</b>             | <b>301</b>               | <b>568</b>              | <b>2,114</b>  |
| Others                   | <b>97</b>                        | <b>222</b>               | <b>63</b>                | <b>780</b>              | <b>1,162</b>  |
|                          | <b>P249</b>                      | <b>P1,509</b>            | <b>P386</b>              | <b>P1,357</b>           | <b>P3,501</b> |
| <b>December 31, 2013</b> |                                  |                          |                          |                         |               |
| Reseller                 | P240                             | P49                      | P8                       | P12                     | P309          |
| Lubes                    | -                                | 8                        | 3                        | 1                       | 12            |
| Gasul                    | 6                                | 33                       | 2                        | 1                       | 42            |
| Industrial               | 301                              | 1,975                    | 1,260                    | 1,014                   | 4,550         |
| Others                   | 103                              | 76                       | 12                       | 110                     | 301           |
|                          | P650                             | P2,141                   | P1,285                   | P1,138                  | P5,214        |

No allowance for impairment 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.

## 10. Inventories

This account consists of:

|                                       | 2014           | 2013    |
|---------------------------------------|----------------|---------|
| Crude oil and others - at NRV         | <b>P28,577</b> | P25,509 |
| Petroleum - at NRV                    | <b>22,675</b>  | 24,596  |
| TBA products, materials and supplies: |                |         |
| Materials and supplies - at NRV       | <b>1,899</b>   | 1,584   |
| TBA - at cost                         | <b>29</b>      | 32      |
|                                       | <b>P53,180</b> | P51,721 |

The cost of these inventories amounted to P54,404 and P52,835 as of December 31, 2014 and 2013, 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 P618 and decreased by P1,398 as of December 31, 2014 and 2013, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P456,712, P432,779 and P398,102 in 2014, 2013 and 2012, respectively (Note 22).

Research and development costs (Note 23) on these products constituted the expenses incurred for internal projects in 2014 and 2013.

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2014 and 2013 follow:

|                              | 2014          | 2013   |
|------------------------------|---------------|--------|
| Balance at beginning of year | <b>P1,114</b> | P387   |
| Provisions due to:           |               |        |
| Write-downs                  | <b>798</b>    | 702    |
| Obsolescence                 | <b>14</b>     | 33     |
| Reversals                    | <b>(702)</b>  | (8)    |
|                              | <b>P1,224</b> | P1,114 |

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 the inventory sold during the year.

## 11. Investment in an Associate

This account consists of:

|                                     | <i>Note</i> | <b>2014</b>   | 2013    |
|-------------------------------------|-------------|---------------|---------|
| <b>Acquisition Cost</b>             |             |               |         |
| Balance at beginning of year        |             | <b>P705</b>   | P1,943  |
| Additions                           |             | <b>175</b>    | -       |
| Reclassification                    | 13          | -             | (1,238) |
| Balance at end of year              |             | <b>880</b>    | 705     |
| <b>Share in Net Income (Losses)</b> |             |               |         |
| Balance at beginning of year        |             | <b>180</b>    | (302)   |
| Share in net income during the year |             | <b>102</b>    | 110     |
| Reclassifications                   |             | -             | 372     |
| Balance at end of year              |             | <b>282</b>    | 180     |
|                                     |             | <b>P1,162</b> | P885    |

Investment in an associate pertain to investments in:

### Manila North Harbour Port Inc (MNHPI)

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, the Company advanced P175 as deposit for future subscription of MNHPI's shares.

The cost of investment in MNHPI amounted to P880 and P705 as of December 31, 2014 and 2013, respectively.

Following are the condensed financial information of MNHPI in 2014 and in 2013:

|                                             | <b>2014</b>        | 2013        |
|---------------------------------------------|--------------------|-------------|
| Country of incorporation                    | <b>Philippines</b> | Philippines |
| Percentage of ownership                     | <b>35%</b>         | 35%         |
| Current assets                              | <b>P1,974</b>      | P1,297      |
| Noncurrent assets                           | <b>8,091</b>       | 6,950       |
| Current liabilities                         | <b>(2,590)</b>     | (1,198)     |
| Noncurrent liabilities                      | <b>(5,508)</b>     | (5,544)     |
| Net assets                                  | <b>P1,967</b>      | P1,505      |
| Sales                                       | <b>P2,115</b>      | P1,677      |
| Net income/total comprehensive income       | <b>P278</b>        | P291        |
| Share in net income                         | <b>P102</b>        | P110        |
| Share in net assets                         | <b>P688</b>        | P527        |
| Goodwill                                    | <b>474</b>         | 358         |
| Carrying amount of investments in associate | <b>P1,162</b>      | P885        |

## 12. Property, Plant and Equipment

This account consists of:

|                                                             | Buildings<br>and Related<br>Facilities | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Computers,<br>Office and<br>Motor<br>Equipment | Land and<br>Leasehold<br>Improvements | Construction<br>In-progress | Total           |
|-------------------------------------------------------------|----------------------------------------|------------------------------------|-----------------------------------------------|------------------------------------------------|---------------------------------------|-----------------------------|-----------------|
| <b>Cost</b>                                                 |                                        |                                    |                                               |                                                |                                       |                             |                 |
| January 1, 2013                                             | P22,457                                | P48,743                            | P14,276                                       | P4,142                                         | P11,754                               | P57,591                     | P158,963        |
| Additions                                                   | 869                                    | 60                                 | 831                                           | 88                                             | 243                                   | 53,023                      | 55,114          |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 4,081                                  | 771                                | 510                                           | (124)                                          | 265                                   | (18,270)                    | (12,767)        |
| Currency translation<br>adjustment                          | 455                                    | 73                                 | 52                                            | 51                                             | 40                                    | (76)                        | 595             |
| December 31, 2013                                           | 27,862                                 | 49,647                             | 15,669                                        | 4,157                                          | 12,302                                | 92,268                      | 201,905         |
| Additions                                                   | 161                                    | 207                                | 687                                           | 219                                            | 57                                    | 14,591                      | 15,922          |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 695                                    | 1,265                              | 179                                           | (8)                                            | 2,327                                 | (2,020)                     | 2,438           |
| Currency translation<br>adjustment                          | (388)                                  | (587)                              | (393)                                         | (40)                                           | (411)                                 | (110)                       | (1,929)         |
| <b>December 31, 2014</b>                                    | <b>28,330</b>                          | <b>50,532</b>                      | <b>16,142</b>                                 | <b>4,328</b>                                   | <b>14,275</b>                         | <b>104,729</b>              | <b>218,336</b>  |
| <b>Accumulated Depreciation<br/>and Amortization</b>        |                                        |                                    |                                               |                                                |                                       |                             |                 |
| January 1, 2013                                             | 13,343                                 | 28,095                             | 9,152                                         | 2,747                                          | 1,515                                 | -                           | 54,852          |
| Additions                                                   | 1,310                                  | 2,389                              | 1,175                                         | 313                                            | 66                                    | -                           | 5,253           |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 1,021                                  | (251)                              | (687)                                         | (172)                                          | 18                                    | -                           | (71)            |
| Currency translation<br>adjustment                          | 129                                    | 52                                 | 33                                            | 9                                              | 1                                     | -                           | 224             |
| December 31, 2013                                           | 15,803                                 | 30,285                             | 9,673                                         | 2,897                                          | 1,600                                 | -                           | 60,258          |
| Additions                                                   | 1,331                                  | 1,887                              | 1,310                                         | 863                                            | 103                                   | -                           | 5,494           |
| Disposals/reclassifications/<br>acquisition of subsidiaries | (49)                                   | (40)                               | (274)                                         | (47)                                           | 422                                   | -                           | 12              |
| Currency translation<br>adjustment                          | (319)                                  | 86                                 | (238)                                         | (578)                                          | (29)                                  | -                           | (1,078)         |
| <b>December 31, 2014</b>                                    | <b>16,766</b>                          | <b>32,218</b>                      | <b>10,471</b>                                 | <b>3,135</b>                                   | <b>2,096</b>                          | <b>-</b>                    | <b>64,686</b>   |
| <b>Net Book Value</b>                                       |                                        |                                    |                                               |                                                |                                       |                             |                 |
| December 31, 2013                                           | P12,059                                | P19,362                            | P5,996                                        | P1,260                                         | P10,702                               | P92,268                     | P141,647        |
| <b>December 31, 2014</b>                                    | <b>P11,564</b>                         | <b>P18,314</b>                     | <b>P5,671</b>                                 | <b>P1,193</b>                                  | <b>P12,179</b>                        | <b>P104,729</b>             | <b>P153,650</b> |

Interest capitalized in 2014 and 2013 amounted to P3,352 and P3,529, respectively. Capitalization rate used for borrowings was at 8.10% and 6.22% in 2014 and 2013, respectively (Note 18).

No impairment loss was required to be recognized in 2014 and 2013.

### Capital Commitments

As of December 31, 2014, the Group has outstanding commitments to acquire property, plant and equipment amounting to P4,537.

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### 13. Investment Property

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

|                                 | <b>Land</b> | <b>Office Units</b> | <b>Total</b> |
|---------------------------------|-------------|---------------------|--------------|
| <b>Cost</b>                     |             |                     |              |
| January 1, 2014                 | P100        | P25                 | P125         |
| <b>December 31, 2014</b>        | <b>100</b>  | <b>25</b>           | <b>125</b>   |
| <b>Accumulated Depreciation</b> |             |                     |              |
| January 1, 2014                 | -           | 11                  | 11           |
| Depreciation during the year    | -           | 1                   | 1            |
| <b>December 31, 2014</b>        | <b>-</b>    | <b>12</b>           | <b>12</b>    |
| <b>Net Book Value</b>           |             |                     |              |
| December 31, 2013               | P100        | P14                 | P114         |
| <b>December 31, 2014</b>        | <b>P100</b> | <b>P13</b>          | <b>P113</b>  |

The Group's investment property pertains to a property located in Tagaytay and parcels of land in various locations.

Estimated fair value of the Tagaytay property based on the appraisal made in 2012 amounted to P22 as of December 31, 2014 and 2013. The fair value was calculated using market approach.

This account previously included office units located at Petron Mega Plaza that were classified as "Assets held for sale" in 2012 and were sold during the second quarter of 2013 (Note 5). Rent income earned from these office units amounted to P40 and P58 in 2013 and 2012, respectively.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2014 and 2013, the aggregate fair market values of the properties amounted to P134, determined by independent appraisers in 2013 using market approach, is higher than their carrying values, 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 2 in the fair value hierarchy.

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### 14. Acquisition of Subsidiaries and Goodwill

The movements and balances of goodwill as at and for the years ended December 31 are as follows:

|                              | <b>Note</b> | <b>2014</b>   | <b>2013</b> |
|------------------------------|-------------|---------------|-------------|
| Balance at beginning of year | 14a         | <b>P9,386</b> | P9,032      |
| Additions                    | 14b         | -             | 298         |
| Translation adjustments      |             | <b>(465)</b>  | 56          |
| Balance at end of year       |             | <b>P8,921</b> | P9,386      |

a. *POGI*

On March 30, 2012, the Parent Company's indirect offshore subsidiary, POGI, completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US\$577.3 million.

The Group used provisional fair values of the identifiable net assets in calculating the goodwill as at the acquisition date. Upon finalization of the purchased price allocation exercise in 2013, the Group restated the amounts of net assets acquired, non-controlling interest and goodwill recognized in 2012, in accordance with PFRS 3.

Goodwill was recognized based on the final amounts of net assets acquired as follows:

|                                                                                              | Provisionary<br>Amounts | Final<br>Amounts |
|----------------------------------------------------------------------------------------------|-------------------------|------------------|
| Total cash consideration transferred                                                         | P25,928                 | <b>P24,790</b>   |
| Non-controlling interest measured at<br>proportionate interest in identifiable net<br>assets | 3,584                   | <b>5,445</b>     |
| Total identifiable net assets at fair value                                                  | (18,873)                | <b>(20,878)</b>  |
| <b>Goodwill</b>                                                                              | <b>P10,639</b>          | <b>P9,357</b>    |

POGI also served the notice of mandatory general offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. The Unconditional Mandatory Take-Over Offer was closed on May 14, 2012. As a result of the MGO, POGI was able to acquire an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

Consequently, the Group recognized a decrease in non-controlling interests of P1,253 and an increase in other reserves of P165.

b. *PAHL*

Although the Group owns less than half of the voting power of the PAHL, management has assessed, in accordance with PFRS 10, that the Group has control over PAHL on a de facto basis. In accordance with the transitional provision of PFRS 10, the Group applied acquisition accounting on its investment in PAHL beginning 2013.

The following summarizes the recognized amounts of assets acquired and liabilities assumed as of January 1, 2013:

|                                                             |                |
|-------------------------------------------------------------|----------------|
| <b>Assets</b>                                               |                |
| Cash and cash equivalents                                   | <b>P432</b>    |
| Trade and other receivables - net                           | <b>637</b>     |
| Inventories                                                 | <b>1,048</b>   |
| Prepaid expenses and other current assets                   | <b>272</b>     |
| Property, plant and equipment - net                         | <b>2,863</b>   |
| Deferred tax assets                                         | <b>70</b>      |
| Other noncurrent assets - net                               | <b>104</b>     |
| <b>Liabilities</b>                                          |                |
| Short-term loans                                            | <b>(1,792)</b> |
| Liabilities for crude oil and petroleum product importation | <b>(1,524)</b> |
| Trade and other payables                                    | <b>(869)</b>   |
| Other noncurrent liabilities                                | <b>(2)</b>     |
| <b>Total identifiable net assets at fair value</b>          | <b>P1,239</b>  |

Goodwill was recognized based on the fair value of net assets acquired as follows:

|                                                                                        |                |
|----------------------------------------------------------------------------------------|----------------|
| Carrying amount of investments in PAHL at January 1, 2013                              | <b>P866</b>    |
| Non-controlling interest measured at proportionate interest in identifiable net assets | <b>671</b>     |
| <b>Total identifiable net assets at fair value</b>                                     | <b>(1,239)</b> |
| <b>Goodwill</b>                                                                        | <b>P298</b>    |

c. *PGL*

On March 13, 2014, the Parent Company acquired 12,685,350 common shares of PGL for US\$1.00 per share or for a total consideration of US\$12,685,350. Further, on September 26, 2014, the Parent Company acquired an additional 11,251,662 common shares of PGL for US\$1 per share or for a total consideration of US\$11,251,662.

As of December 31, 2014, the Parent Company holds a total of 73,559,188 common shares in PGL representing 100% of the voting capital stock of PGL.

d. *NVRC*

In 2013, NVRC, a subsidiary, acquired 100% interests in South Luzon Prime Holdings Inc. (SLPHI), MRGVeloso Holdings Inc. (MHI), and Abreco Realty Corp. (ARC). These acquisitions were considered as asset deals.

Impairment of Goodwill

Goodwill arising from the acquisition of Petron Malaysia 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. The remaining goodwill is allocated to each individual acquiree company.

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 2014 and 2013 and discount rates of 7.8% and 8.0% in 2014 and 2013, 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 2015, 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.

The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique.

No impairment losses were recognized in 2014, 2013 and 2012.

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.

The following table summarizes the financial information relating to each of the Group's subsidiaries that has material non-controlling interests:

|                                                                             | December 31, 2014 |                 |                |                | December 31, 2013 |          |         |         |
|-----------------------------------------------------------------------------|-------------------|-----------------|----------------|----------------|-------------------|----------|---------|---------|
|                                                                             | NVRC              | PMRMB           | PAHL           | PGL            | NVRC              | PMRMB    | PAHL    | PGL     |
| <b>Non-controlling interests percentage</b>                                 | <b>60.00%</b>     | <b>26.60%</b>   | <b>54.15%</b>  | <b>0.00%</b>   | 60.00%            | 26.60%   | 54.15%  | 0.00%   |
| <b>Carrying amount of non-controlling interest</b>                          | <b>P359</b>       | <b>P3,413</b>   | <b>P625</b>    | <b>P11,884</b> | P338              | P3,778   | P727    | P12,931 |
| Current assets                                                              | <b>P194</b>       | <b>P16,263</b>  | <b>P363</b>    | <b>P27</b>     | P190              | P22,095  | P1,493  | P6      |
| Noncurrent assets                                                           | <b>4,895</b>      | <b>14,997</b>   | <b>2,763</b>   | <b>15,652</b>  | 4,744             | 15,574   | 3,253   | 15,538  |
| Current liabilities                                                         | <b>(3,988)</b>    | <b>(17,724)</b> | <b>(1,855)</b> | -              | (3,877)           | (24,664) | (3,276) | -       |
| Noncurrent liabilities                                                      | <b>(30)</b>       | <b>(3,810)</b>  | -              | -              | (21)              | (1,378)  | (12)    | -       |
| <b>Net assets</b>                                                           | <b>P1,071</b>     | <b>P9,726</b>   | <b>P1,271</b>  | <b>P15,679</b> | P1,036            | P11,627  | P1,458  | P15,544 |
| <b>Net income (loss) attributable to non-controlling interests</b>          | <b>P21</b>        | <b>(P230)</b>   | <b>(P102)</b>  | <b>P -</b>     | P24               | (P235)   | P56     | P -     |
| <b>Other comprehensive income attributable to non-controlling interests</b> | <b>P -</b>        | <b>P2</b>       | <b>P -</b>     | <b>P -</b>     | P -               | P43      | P -     | P -     |
| Sales                                                                       | <b>P550</b>       | <b>P147,938</b> | <b>P1,772</b>  | <b>P -</b>     | P560              | P150,057 | P4,640  | P -     |
| Net income (loss)                                                           | <b>36</b>         | <b>(875)</b>    | <b>(189)</b>   | <b>(2)</b>     | 40                | (866)    | 104     | -       |
| Other comprehensive income                                                  | -                 | 7               | -              | -              | -                 | 160      | 8       | -       |
| <b>Total comprehensive income (loss)</b>                                    | <b>P36</b>        | <b>(P868)</b>   | <b>(P189)</b>  | <b>(P2)</b>    | P40               | (P706)   | P112    | P -     |
| Cash flows from operating activities                                        | <b>P203</b>       | <b>P3,849</b>   | <b>(P114)</b>  | <b>(P2)</b>    | (P103)            | P3,228   | P302    | P -     |
| Cash flows from investing activities                                        | <b>(237)</b>      | <b>(1,201)</b>  | <b>6</b>       | -              | 389               | (2,051)  | (166)   | -       |
| Cash flows from financial activities                                        | <b>51</b>         | <b>642</b>      | <b>(262)</b>   | <b>23</b>      | (324)             | (383)    | (78)    | (133)   |
| Effects of exchange rate changes on cash and cash equivalents               | -                 | -               | <b>(28)</b>    | -              | -                 | -        | (30)    | -       |
| <b>Net increase (decrease) in cash and cash equivalents</b>                 | <b>P17</b>        | <b>P3,290</b>   | <b>(P398)</b>  | <b>P21</b>     | (P38)             | P794     | P28     | (P133)  |

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**15. Other Assets**

This account consists of:

|                             | <i>Note</i> | <b>2014</b>    | 2013    |
|-----------------------------|-------------|----------------|---------|
| Current:                    |             |                |         |
| Input VAT                   |             | <b>P13,673</b> | P10,555 |
| Prepaid expenses            |             | <b>3,230</b>   | 1,835   |
| Special-purpose fund        |             | <b>124</b>     | 47      |
| Tax recoverable             |             | <b>505</b>     | 471     |
| Others                      |             | <b>516</b>     | 25      |
|                             |             | <b>P18,048</b> | P12,933 |
| Noncurrent:                 |             |                |         |
| Due from related parties    | 28, 34, 35  | <b>P1,747</b>  | P10,877 |
| Retirement benefits asset   | 30          | -              | 3,169   |
| Catalyst                    |             | <b>1,613</b>   | 227     |
| Prepaid rent                |             | <b>2,988</b>   | 5,039   |
| Long-term receivables - net | 34, 35      | <b>43</b>      | 45      |
| Noncurrent deposits         | 34, 35      | <b>90</b>      | 92      |
| Others - net                |             | <b>1,275</b>   | 1,398   |
|                             |             | <b>P7,756</b>  | P20,847 |

The “Noncurrent assets - others” account includes software, marketing assistance to dealers, other prepayments and franchise fees amounting to P796 and P1,100 in 2014 and 2013, respectively, net of amortization of software, marketing assistance to dealers and franchise fees amounting to P295 and P294 in 2014 and 2013, respectively. The amortization of prepaid rent amounted to P243 and P258 in 2014 and 2013, respectively. Amortization of software, marketing assistance to dealers, franchise fees, 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).

Included in due from related parties is an advance made by the Parent Company to PCERP (Notes 28 and 30).

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**16. Short-term Loans**

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit loans obtained from various banks with maturities ranging from 10 to 360 days and annual interest ranging from 1.625% to 6.230% in 2014 and 1.16% to 5.90% in 2013 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 10) and working capital requirements.

## 17. Trade and Other Payables

This account consists of:

|                                        | <i>Note</i> | <b>2014</b>    | 2013    |
|----------------------------------------|-------------|----------------|---------|
| Trade                                  | 34, 35      | <b>P29,496</b> | P23,958 |
| Accrued rent                           | 34, 35      | <b>904</b>     | 829     |
| Related parties                        | 28, 34, 35  | <b>1,148</b>   | 1,046   |
| Specific taxes and other taxes payable |             | <b>2,226</b>   | 959     |
| Sales container and fob deposits       | 34, 35      | -              | 317     |
| Accrued interest                       | 34, 35      | <b>757</b>     | 570     |
| Dividends payable                      | 34, 35      | <b>423</b>     | 461     |
| Insurance liabilities                  | 34, 35      | <b>99</b>      | 178     |
| Retirement benefits liability          | 30          | <b>71</b>      | 66      |
| Accrued payroll                        | 34, 35      | <b>68</b>      | 55      |
| Others                                 | 34, 35      | <b>3,944</b>   | 852     |
|                                        |             | <b>P39,136</b> | P29,291 |

Accounts payable are liabilities to haulers, contractors and suppliers that are noninterest-bearing and are generally settled on a 30-day term.

Others include provisions, retention payable, accruals of selling and administrative expenses, and deferred liability on customer loyalty programme which are normally settled within a year.

## 18. Long-term Debt

This account consists of:

|                                                                            | <i>Note</i> | <b>2014</b>    | 2013    |
|----------------------------------------------------------------------------|-------------|----------------|---------|
| <b>Unsecured Peso denominated<br/>(net of debt issue cost)</b>             |             |                |         |
| Fixed rate corporate notes of 7% in 2010 to 2017                           | (b)         | <b>P19,891</b> | P19,859 |
| Fixed rate corporate notes of 8.14% and 9.33%                              | (a)         | -              | 9,782   |
| Fixed rate corporate notes of 6.3212% and 7.1827%                          | (d)         | <b>3,466</b>   | 3,498   |
| <b>Unsecured Foreign currency denominated<br/>(net of debt issue cost)</b> |             |                |         |
| Floating rate dollar loan - US\$480 million                                | (c)         | <b>9,052</b>   | 11,979  |
| Floating rate dollar loan - US\$485 million                                | (e)         | <b>15,094</b>  | 21,069  |
| Floating rate dollar loan - US\$475 million                                | (f)         | <b>20,821</b>  | -       |
| Floating rate dollar loan - MYR100 million                                 | (g)         | <b>1,269</b>   | -       |
| Floating rate dollar loan - MYR50 million                                  | (g)         | <b>634</b>     | -       |
| Floating rate dollar loan - MYR100 million                                 | (g)         | <b>1,268</b>   | -       |
| Floating rate dollar loan - MYR50 million                                  | (g)         | <b>634</b>     | -       |
|                                                                            | 34, 35      | <b>72,129</b>  | 66,187  |
| Less current portion                                                       |             | <b>5,860</b>   | 8,155   |
|                                                                            |             | <b>P66,269</b> | P58,032 |

- a. On June 5, 2009, the Parent Company issued P5,200 and P4,800 or a total of P10,000 Fixed Rate Corporate Notes. The P5,200 five-year Notes bear a fixed rate of 8.14% per annum and were redeemed on maturity date in June 2014. On the other hand, the P4,800 seven-year Notes bear a fixed rate of 9.33% per annum with 6 principal payments of P48 per year commencing June 2010 with the final payment of P4,512 due in December 2016. The Parent Company, however, exercised its early redemption option and made a final payment of P4,560 in December 2014.
- b. 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.
- c. On September 30, 2011, the Parent Company signed and executed a US\$480 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. The loan proceeds were used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2). The first drawdown of US\$80 million was made on November 25, 2011 while the balance of US\$400 million was drawn on February 15, 2012. Partial payments were made by the Parent Company on the following dates: on June 29, 2012 (US\$180 million); on October 30, 2013 (US\$25.71 million); and on May 28, 2014 (US\$68.57 million).
- d. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCN consisted of Series A Notes amounting to P690 having a maturity of 7 years from issue date and Series B Notes amounting to P2,910 having a maturity of 10 years from issue date. The Notes 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.
- e. On October 31, 2012, the Parent Company signed and executed a US\$485 million term loan facility. The facility is amortized over 5 years with 2-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to finance the capital expenditure requirements of RMP-2. An initial drawdown of US\$100 million was made on November 9, 2012. Subsequent drawdowns of US\$35 million and US\$140 million were made in December 2012. The remaining balance of US\$210 million was drawn in the first quarter of 2013. During 2014, the Parent Company made partial payments on the following dates: June 24 (US\$70 million); and October 24 (US\$70 million).
- f. 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 during the period and their respective amounts were made on the following dates: May 27 (US\$70 million); June 4 (US\$118 million); June 20 (US\$70 million) and July 2 (US\$42 million). On September 29, 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 (US\$70 million) and November 6 (US\$105 million). Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019.

- g. 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). 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%.

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, 2014 and 2013, the Parent Company 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 P973, P458 and P3,024 for the years ended 2014, 2013 and 2012, respectively (Note 26). Capitalized interest in 2014 and 2013 amounted to P3,352 and P3,529, respectively (Note 12).

Movements in debt issue costs follow:

|                           | 2014          | 2013   |
|---------------------------|---------------|--------|
| Beginning balance         | <b>P858</b>   | P1,010 |
| Additions                 | <b>712</b>    | 293    |
| Amortization for the year | <b>(497)</b>  | (445)  |
| Ending balance            | <b>P1,073</b> | P858   |

#### Repayment Schedule

As of December 31, 2014 and 2013, the annual maturities of long-term debt are as follows:

#### 2014

| Year            | Gross Amount   | Debt Issue Costs | Net            |
|-----------------|----------------|------------------|----------------|
| 2015            | <b>P6,137</b>  | <b>P277</b>      | <b>P5,860</b>  |
| 2016            | <b>19,181</b>  | <b>462</b>       | <b>18,719</b>  |
| 2017            | <b>33,582</b>  | <b>256</b>       | <b>33,326</b>  |
| 2018            | <b>8,027</b>   | <b>58</b>        | <b>7,969</b>   |
| 2019            | <b>3,598</b>   | <b>13</b>        | <b>3,585</b>   |
| 2020 and beyond | <b>2,677</b>   | <b>7</b>         | <b>2,670</b>   |
|                 | <b>P73,202</b> | <b>P1,073</b>    | <b>P72,129</b> |

#### 2013

| Year            | Gross Amount   | Debt Issue Costs | Net            |
|-----------------|----------------|------------------|----------------|
| 2014            | P8,360         | P205             | P8,155         |
| 2015            | 12,324         | 327              | 11,997         |
| 2016            | 16,788         | 131              | 16,657         |
| 2017            | 26,188         | 180              | 26,008         |
| 2018            | 678            | 4                | 674            |
| 2019 and beyond | 2,707          | 11               | 2,696          |
|                 | <b>P67,045</b> | <b>P858</b>      | <b>P66,187</b> |

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**19. Asset Retirement Obligation**

Movements in the ARO are as follows:

|                                   | <i>Note</i> | <b>2014</b>   | 2013   |
|-----------------------------------|-------------|---------------|--------|
| Beginning balance                 |             | <b>P1,004</b> | P997   |
| Additions                         |             | <b>677</b>    | 2      |
| Effect of change in discount rate |             | <b>(141)</b>  | (46)   |
| Effect of change in lease term    |             | <b>(2)</b>    | 14     |
| Accretion for the year            | 22, 26      | <b>121</b>    | 66     |
| Gain on settlement                | 26          | -             | (29)   |
| Ending balance                    |             | <b>P1,659</b> | P1,004 |

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**20. Other Noncurrent Liabilities**

|                         | <i>Note</i> | <b>2014</b>   | 2013   |
|-------------------------|-------------|---------------|--------|
| Payable to a contractor |             | <b>P -</b>    | P3,913 |
| Cash bonds              |             | <b>870</b>    | 363    |
| Cylinder deposits       |             | <b>442</b>    | 210    |
| Others                  |             | <b>61</b>     | 53     |
|                         | 34, 35      | <b>P1,373</b> | P4,539 |

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**21. Equity**

- a. On February 27, 2009, the BOD approved an increase of the Parent Company's authorized capital stock from P10,000 to P25,000 (25,000,000,000 shares) through the issuance of preferred shares aimed at raising funds for capital expenditures related to expansion programs as well as to possibly reduce some of the Parent Company's debt. Both items, including a waiver to subscribe to the preferred shares to be issued as a result of the increase in authorized capital stock, were approved by the stockholders on May 12, 2009 at the annual stockholders' meeting.

On October 21, 2009, the BOD approved the amendment of the Parent Company's articles of incorporation relating to the reclassification of 624,895,503 unissued common shares to preferred shares with a par value of P1.00 per share, and the denial of stockholders' pre-emptive rights, which were approved by written assent of the majority of the stockholders.

BOD likewise approved the issuance and offering to the general public of up to a total of 100,000,000 preferred shares (the "2010 Preferred Shares") at an issue price of up to P100 per share. Other features of said preferred shares were approved by the Executive Committee on November 25, 2009.

On January 21, 2010, the SEC approved Petron's amendment to its articles of incorporation to include preferred shares in the composition of its authorized capital stock. On February 12, 2010, the SEC issued an order permitting the offering and sale of 100,000,000 preferred shares to be offered to the public from February 15 to February 26, 2010. Subsequently, the PSE also approved the listing of the 100,000,000 preferred shares on March 5, 2010.

The Executive Committee of Petron, pursuant to the authority delegated to it by the BOD on August 6, 2014, approved on September 6, 2014 the public offering of another series of preferred shares of Petron amounting to P7 billion, with an oversubscription option of up to P3 billion, for a total of 10,000,000 shares. On October 17, 2014, the SEC issued an order permitting the offering and sale by Petron of 7,000,000, with an oversubscription of 3,000,000, Series 2 preferred shares (collectively, the “Series 2 Preferred Shares”). The Series 2 Preferred Shares were offered to the public from October 20 to October 24, 2014. On November 3, 2014, 10,000,000 Series 2 Preferred Shares composed of 7,122,320 Series 2A preferred shares (the “Series 2A Preferred Shares”) and 2,877,680 Series 2B Preferred Shares (the “Series 2B Preferred Shares”) were issued by Petron and listed on the PSE.

b. Capital Stock

Common Share

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of Petron were registered and may be offered for sale at an offer price of P1.00 per common share. As of December 31, 2014 and 2013, Petron had 150,636 and 157,465 stockholders with at least one board lot at the PSE, respectively, and a total of 9,375,104,497 (P1 par value) issued and outstanding common shares.

Preferred Share

As of December 31, 2014, Petron had 110,000,000 (P1 par value) issued and outstanding preferred shares.

The 2010 Preferred Shares consisted of 100,000,000 peso-denominated, cumulative, non-participating, non-voting shares that are redeemable at the option of the Company. The 2010 Preferred Shares were issued upon listing on the PSE at (P1 par value) P100 per share. The proceeds from issuance in excess of par value less related transaction costs amounted to P9,764 which were 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 BOD.

On November 3, 2014, the Company issued the Series 2 Preferred Shares (P1 par value) consisting of 10,000,000 shares cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares, inclusive of the 3,000,000 shares issued upon the exercise of the oversubscription option. The proceeds from issuance in excess of par value less related transaction costs amounted to P9,889 which were recognized as additional paid-in capital.

The Series 2 Preferred Shares were issued in two (2) sub-series - the Series 2A Preferred Shares amounting to P7.12 billion (the “Series 2A Preferred Shares”) and the Series 2B Preferred Shares amounting to P2.88 billion (the “Series 2B Preferred Shares”). The offer price was P1,000.00 per share, with the following dividend rates:

Series 2A Preferred Shares: 6.3000% per annum; and  
Series 2B Preferred Shares: 6.8583% per annum.

The Series 2A Preferred Shares may be redeemed by the 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.

Cash dividends are payable quarterly every February 3, May 3, August 3, and November 3 of each year, as and if declared by the BOD.

The Series 2 Preferred Shares were listed and began trading on the Main Board of the PSE on November 3, 2014.

All shares rank equally with regard 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.

The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2014 and 2013 are as follows:

2014

- (i) 2010 Preferred Shares - 124
- (ii) Series 2A Preferred Shares - 15
- (iii) Series 2B Preferred Shares - 13

2013

2010 Preferred Shares - 116

c. Retained Earnings

i. Declaration of Cash Dividends

On March 18, 2013, the BOD approved cash dividends of P2.382 per share for preferred shareholders for the second and third quarter of 2013 with payment dates on June 5, 2013 and September 5, 2013, respectively. On the same date, the BOD approved cash dividends of P0.05 per share for common shareholders as of April 12, 2013 which were paid on May 8, 2013.

On August 6, 2013, the BOD approved cash dividends of P2.382 per share for preferred shareholders for the fourth quarter of 2013 and first quarter of 2014 with payment dates on December 5, 2013 and March 5, 2014.

On March 24, 2014, the BOD approved cash dividends of P0.05 per share for common shareholders as of April 8, 2014 which was paid on April 23, 2014.

On May 6, 2014, the BOD approved cash dividends of P2.382 per share for the holders of the 2010 Preferred Shares as of May 21, 2014 which was paid on June 5, 2014.

On August 6, 2014, the BOD approved cash dividends of P2.382 per share for the holders of the 2010 Preferred Shares as of August 22, 2014 which was paid on September 5, 2014.

On November 7, 2014, the BOD approved cash dividends of P2.382 per share for the holders of the 2010 Preferred Shares for the fourth quarter of 2014 and the first quarter of 2015 with record dates of November 24, 2014 and February 18, 2015, respectively, and payment dates of December 5, 2014 and March 5, 2015, respectively. The BOD also approved cash dividends of P15.75 per share for the holders of the Series 2A Preferred Shares and P17.14575 per share for the holders of the Series 2B Preferred Shares, both with a record date of January 20, 2015 and a payment date of February 3, 2015.

ii. Appropriation for Capital Projects

On May 11, 2011, the BOD approved the additional appropriation of retained earnings of P9,628 which took effect on May 31, 2011.

On July 12, 2011, the BOD passed a resolution to approve the capital expenditure for additional two boilers for the RMP-2. At the same meeting, the BOD likewise approved the capital expense for the acquisition of a Gulfstream aircraft. This aircraft was capitalized and included in the property, plant and equipment in 2011 (Note 12). In November 2012, the Parent Company assigned all its interest in the aircraft to, and in exchange for shares in, Petron Finance (Labuan) Limited.

The appropriated retained earnings as of December 31, 2014 and 2013 amounting to P25,171 were for the Parent Company's RMP-2 project and expansion projects of subsidiaries which are expected to start operations in 2015.

- d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P5,181, P4,960 and P2,866 in 2014, 2013 and 2012, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.
- e. Other reserves pertain to unrealized fair value gains (losses) on AFS financial assets, exchange differences on translation of foreign operations and others.
- f. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.
- g. Undated Subordinated Capital Securities (USCS)

On February 6, 2013, the Parent Company issued US\$500 million USCS at an issue price of 100% ("Original Securities"). In March 2013, Petron reopened the issuance of the securities under the same terms and conditions of the Original Securities. An additional US\$250 million was issued at a price of 104.25% on March 11, 2013 ("New Securities"). The New Securities constitute a further issuance of, are fungible with, and are consolidated and form a single series with the Original Securities (the "Original Securities" and, together with the "New Securities", the "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 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 at their principal amounts together with any accrued, unpaid or deferred distributions.

The proceeds were applied by the Parent Company towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes.

The payments of distribution in respect of the Securities amounting to US\$28.125 million were made on the following dates: August 6, 2013 (P1,674); February 6, 2014 (P1,824); and August 6, 2014 (P1,756)

## 22. Cost of Goods Sold

This account consists of:

|                               | <i>Note</i> | <b>2014</b>     | 2013     | 2012     |
|-------------------------------|-------------|-----------------|----------|----------|
| Inventories                   | 10          | <b>P456,712</b> | P432,779 | P398,102 |
| Depreciation and amortization | 25          | <b>2,654</b>    | 2,628    | 2,471    |
| Personnel expenses            | 24          | <b>1,529</b>    | 1,269    | 1,006    |
| Others                        | 19, 31      | <b>2,205</b>    | 3,803    | 5,219    |
|                               |             | <b>P463,100</b> | P440,479 | P406,798 |

Distribution or transshipment costs included as part of inventories amounted to P10,289, P8,049 and P8,155 in 2014, 2013 and 2012, respectively.

## 23. Selling and Administrative Expenses

This account consists of:

|                                                  | <i>Note</i> | <b>2014</b>    | 2013    | 2012    |
|--------------------------------------------------|-------------|----------------|---------|---------|
| Personnel expenses                               | 24          | <b>P2,731</b>  | P2,815  | P2,246  |
| Purchased services and utilities                 |             | <b>2,333</b>   | 2,478   | 2,113   |
| Depreciation and amortization                    | 15, 25      | <b>3,379</b>   | 3,178   | 2,642   |
| Maintenance and repairs                          |             | <b>1,160</b>   | 1,119   | 1,238   |
| Rent - net                                       | 29, 31      | <b>103</b>     | (6)     | (148)   |
| Impairment losses on trade and other receivables | 4, 9        | <b>2</b>       | 3       | 13      |
| Materials and office supplies                    |             | <b>342</b>     | 269     | 425     |
| Advertising                                      |             | <b>985</b>     | 922     | 1,052   |
| Taxes and licenses                               |             | <b>301</b>     | 304     | 262     |
| Others                                           | 10          | <b>494</b>     | 393     | 294     |
|                                                  |             | <b>P11,830</b> | P11,475 | P10,137 |

Selling and administrative expenses include research and development costs amounting to P66, P60 and P50 in 2014, 2013 and 2012, respectively. Rent is shown net of rental income amounting to P1,145, P1,155 and P977 in 2014, 2013 and 2012, respectively.

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**24. Personnel Expenses**

This account consists of:

|                                              | <i>Note</i> | <b>2014</b>   | 2013   | 2012   |
|----------------------------------------------|-------------|---------------|--------|--------|
| Salaries, wages and other employee costs     | 28          | <b>P4,089</b> | P3,585 | P2,954 |
| Retirement costs defined benefit plan        | 28, 30      | <b>91</b>     | 323    | 161    |
| Retirement costs - defined contribution plan | 28          | <b>80</b>     | 176    | 137    |
|                                              |             | <b>P4,260</b> | P4,084 | P3,252 |

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The above amounts are distributed as follows:

|                                     | <i>Note</i> | <b>2014</b>   | 2013   | 2012   |
|-------------------------------------|-------------|---------------|--------|--------|
| Costs of goods sold                 | 22          | <b>P1,529</b> | P1,269 | P1,006 |
| Selling and administrative expenses | 23          | <b>2,731</b>  | 2,815  | 2,246  |
|                                     |             | <b>P4,260</b> | P4,084 | P3,252 |

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**25. Depreciation and Amortization**

This account consists of:

|                                      | <i>Note</i> | <b>2014</b>   | 2013   | 2012   |
|--------------------------------------|-------------|---------------|--------|--------|
| Cost of goods sold:                  |             |               |        |        |
| Property, plant and equipment        | 12, 22      | <b>P2,654</b> | P2,628 | P2,471 |
| Selling and administrative expenses: |             |               |        |        |
| Property, plant and equipment        | 12          | <b>2,840</b>  | 2,625  | 2,219  |
| Investment property                  | 13          | <b>1</b>      | 1      | 91     |
| Intangible assets and others         | 15          | <b>538</b>    | 552    | 332    |
|                                      | 23          | <b>3,379</b>  | 3,178  | 2,642  |
|                                      |             | <b>P6,033</b> | P5,806 | P5,113 |

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**26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Expenses)**

|                                                   | <i>Note</i> | <b>2014</b>     | 2013     | 2012   |
|---------------------------------------------------|-------------|-----------------|----------|--------|
| Interest expense and other financing charges:     |             |                 |          |        |
| Long-term debt                                    | 18          | <b>P858</b>     | P406     | P2,533 |
| Short-term loans                                  | 16          | <b>3,302</b>    | 3,351    | 3,044  |
| Bank charges                                      |             | <b>1,182</b>    | 1,579    | 1,351  |
| Amortization of debt issue costs                  | 18          | <b>115</b>      | 52       | 491    |
| Accretion on ARO                                  | 19          | <b>65</b>       | 66       | 83     |
| Others                                            |             | <b>6</b>        | 8        | 6      |
|                                                   |             | <b>P5,528</b>   | P5,462   | P7,508 |
| Interest income:                                  |             |                 |          |        |
| Advances to related parties                       | 15, 28      | <b>P428</b>     | P777     | P580   |
| Short-term placements                             | 6           | <b>331</b>      | 373      | 345    |
| AFS financial assets                              | 8           | <b>10</b>       | 17       | 20     |
| Trade receivables                                 |             | <b>55</b>       | 88       | 101    |
| Cash in banks                                     | 6           | <b>16</b>       | 14       | 58     |
| Others                                            |             | <b>4</b>        | 16       | 17     |
|                                                   |             | <b>P844</b>     | P1,285   | P1,121 |
| Other income (expenses):                          |             |                 |          |        |
| Foreign currency gains (losses) - net             | 34          | <b>(P1,617)</b> | (P4,109) | P1,270 |
| Marked-to-market gains (losses)                   | 35          | <b>733</b>      | 2,514    | (845)  |
| Insurance claims                                  |             | <b>33</b>       | 115      | 119    |
| Changes in fair value of financial assets at FVPL | 7           | <b>19</b>       | (29)     | (22)   |
| Gain on settlement of ARO                         | 19          | <b>-</b>        | 29       | 83     |
| Hedging gains - net                               |             | <b>1,560</b>    | 495      | 49     |
| Others - net                                      |             | <b>62</b>       | 310      | 123    |
|                                                   |             | <b>P790</b>     | (P675)   | P777   |

The Parent Company recognized its share in the net income/(loss) of PDSI amounting to (P0.39) , P0.46 and P0.67 in 2014, 2013 and 2012, respectively, and recorded it as part of “Other income (expenses) - Others” account.

## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

|                                                                                                        | 2014            | 2013     |
|--------------------------------------------------------------------------------------------------------|-----------------|----------|
| Various allowance, accruals and others                                                                 | <b>P400</b>     | P795     |
| Rental                                                                                                 | <b>246</b>      | 218      |
| ARO                                                                                                    | <b>220</b>      | 242      |
| Net retirement benefits liability (asset)                                                              | <b>557</b>      | (837)    |
| MCIT                                                                                                   | <b>242</b>      | 10       |
| NOLCO                                                                                                  | <b>407</b>      | 19       |
| Unutilized tax losses                                                                                  | <b>275</b>      | 124      |
| Fair market value adjustments on business combination                                                  | <b>(39)</b>     | (47)     |
| Excess of double-declining over straight-line method of depreciation and amortization                  | <b>(2,938)</b>  | (3,101)  |
| Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others | <b>(3,298)</b>  | (2,037)  |
| Inventory differential                                                                                 | <b>305</b>      | (438)    |
| Capitalized taxes and duties on inventories deducted in advance                                        | <b>(211)</b>    | (204)    |
| Unrealized foreign exchange losses - net                                                               | <b>606</b>      | 816      |
| Unrealized fair value gains on AFS financial assets                                                    | <b>(1)</b>      | (3)      |
|                                                                                                        | <b>(P3,229)</b> | (P4,443) |

The above amounts are reported in the consolidated statements of financial position as follows:

|                          | 2014            | 2013     |
|--------------------------|-----------------|----------|
| Deferred tax assets      | <b>P242</b>     | P162     |
| Deferred tax liabilities | <b>(3,471)</b>  | (4,605)  |
|                          | <b>(P3,229)</b> | (P4,443) |

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:

|          | 2014        | 2013   | 2012 |
|----------|-------------|--------|------|
| Current  | <b>P569</b> | P1,356 | P546 |
| Deferred | <b>235</b>  | 494    | (87) |
|          | <b>P804</b> | P1,850 | P459 |

The following are the amounts of deferred tax expense (benefit), for each type of temporary difference, recognized in the consolidated statements of income:

|                                                                                                              | 2014         | 2013   | 2012  |
|--------------------------------------------------------------------------------------------------------------|--------------|--------|-------|
| Various allowance, accruals and others                                                                       | <b>P395</b>  | (P243) | P288  |
| Rental                                                                                                       | <b>(28)</b>  | (22)   | (18)  |
| ARO                                                                                                          | <b>22</b>    | (32)   | (18)  |
| MCIT                                                                                                         | <b>(232)</b> | 291    | (299) |
| NOLCO                                                                                                        | <b>(388)</b> | 485    | (504) |
| Unutilized tax losses                                                                                        | <b>(151)</b> | (31)   | (93)  |
| Excess of double-declining over<br>straight-line method of depreciation<br>and amortization                  | <b>(163)</b> | (106)  | 123   |
| Capitalized interest, duties and taxes<br>on property, plant and equipment<br>deducted in advance and others | <b>1,261</b> | 940    | 267   |
| Inventory differential                                                                                       | <b>(743)</b> | 112    | 212   |
| Capitalized taxes and duties on<br>inventories deducted in advance                                           | <b>7</b>     | 100    | (122) |
| Unrealized foreign exchange losses<br>(gains) - net                                                          | <b>210</b>   | (957)  | (77)  |
| Others                                                                                                       | <b>45</b>    | (43)   | 154   |
|                                                                                                              | <b>P235</b>  | P494   | (P87) |

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 | 2014           | 2013    | 2012    |
|----------------------------------------------------------------------|------|----------------|---------|---------|
| Statutory income tax rate                                            |      | <b>30.00%</b>  | 30.00%  | 30.00%  |
| Increase (decrease) in income<br>tax rate resulting from:            |      |                |         |         |
| Income subject to Income<br>Tax Holiday (ITH)                        | 36   | <b>(4.14%)</b> | (2.97%) | (3.67%) |
| Interest income subjected to<br>lower final tax                      |      | <b>(2.20%)</b> | (1.35%) | (4.02%) |
| Nontaxable income                                                    |      | <b>(1.36%)</b> | (0.81%) | (8.81%) |
| Nondeductible expense                                                |      | <b>5.53%</b>   | 3.13%   | 6.66%   |
| Nondeductible interest<br>expense                                    |      | <b>0.71%</b>   | 0.49%   | 1.61%   |
| Changes in fair value of<br>financial assets at FVPL                 | 26   | <b>(0.16%)</b> | 0.12%   | 0.31%   |
| Excess of optional standard<br>deduction over deductible<br>expenses |      | <b>(0.13%)</b> | (0.03%) | (0.36%) |
| Others, mainly income<br>subject to different tax<br>rates           |      | <b>(7.16%)</b> | (1.93%) | (1.22%) |
| Effective income tax rate                                            |      | <b>21.09%</b>  | 26.65%  | 20.50%  |

### 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 and LLCDC opted to apply OSD in 2014, 2013 and 2012.

## **28. Related Party Disclosures**

The Parent Company, certain subsidiaries, associate, joint venture and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. The balances and transactions with related parties as of and for the years ended December 31 follow:

|                      | <i>Note</i>  | Year        | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms            | Conditions    |
|----------------------|--------------|-------------|------------------------------|--------------------------------|---------------------------------|---------------------------------|------------------|---------------|
| Retirement Plan      | 9, 15, 30, a | <b>2014</b> | <b>P428</b>                  | <b>P -</b>                     | <b>P6,263</b>                   | <b>P -</b>                      | On demand/       | Unsecured;    |
|                      |              | 2013        | 777                          | -                              | 16,393                          | -                               | long-term;       | no impairment |
|                      |              | 2012        | 557                          | -                              | 15,517                          | -                               | Interest bearing |               |
| Intermediate Parent  | e            | <b>2014</b> | <b>5</b>                     | <b>133</b>                     | <b>5</b>                        | <b>46</b>                       | On demand;       | Unsecured;    |
|                      |              | 2013        | 4                            | 167                            | 5                               | 94                              | Non-interest     | no impairment |
|                      |              | 2012        | 5                            | 87                             | 7                               | 20                              | bearing          |               |
| Under Common Control | b, c, d      | <b>2014</b> | <b>7,261</b>                 | <b>7,298</b>                   | <b>1,026</b>                    | <b>1,089</b>                    | On demand;       | Unsecured;    |
|                      |              | 2013        | 16,053                       | 3,444                          | 3,180                           | 924                             | Non-interest     | no impairment |
|                      |              | 2012        | 13,680                       | 2,106                          | 1,971                           | 612                             | bearing          |               |
| Associate            | b            | <b>2014</b> | <b>152</b>                   | <b>-</b>                       | <b>29</b>                       | <b>-</b>                        | On demand;       | Unsecured;    |
|                      |              | 2013        | 86                           | -                              | 21                              | -                               | Non-interest     | no impairment |
|                      |              | 2012        | 78                           | -                              | 17                              | 28                              | bearing          |               |
| Joint Venture        | c            | <b>2014</b> | <b>-</b>                     | <b>83</b>                      | <b>11</b>                       | <b>12</b>                       | On demand;       | Unsecured;    |
|                      |              | 2013        | -                            | 137                            | 8                               | 28                              | Non-interest     | no impairment |
|                      |              | 2012        | -                            | 45                             | 18                              | 25                              | bearing          |               |
|                      |              | <b>2014</b> | <b>P7,846</b>                | <b>P7,514</b>                  | <b>P7,334</b>                   | <b>P1,147</b>                   |                  |               |
|                      |              | 2013        | P16,920                      | P3,748                         | P19,607                         | P1,046                          |                  |               |
|                      |              | 2012        | P14,320                      | P2,238                         | P17,530                         | P685                            |                  |               |

- As of December 31, 2014 and 2013, the Parent Company has interest bearing advances to PCERP, included as part of "Other receivables" and "Other noncurrent assets" account in the consolidated statements of financial position, for some investment opportunities (Notes 9, 15 and 30).
- Sales relate to the Parent Company's supply agreements with associate and various SMC subsidiaries. Under these agreements, the Parent Company supplies the bunker, diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- Purchases relate to purchase of goods and services such as power, construction, information technology and shipping from a joint venture and various SMC subsidiaries.
- Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6.90. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.

- e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.
- f. Amounts owed by related parties consist of trade, non-trade receivables, advances and security deposits. These are to be settled in cash.
- g. Amounts owed to related parties consist of trade payables, non-trade payables and other noncurrent liabilities. These are to be settled in cash.
- h. The compensation and benefits of key management personnel of the Group, by benefit type, included as part of "Personnel expenses" account follow:

|                                                    | 2014        | 2013 | 2012 |
|----------------------------------------------------|-------------|------|------|
| Salaries and other short-term employee benefits    | <b>P690</b> | P536 | P568 |
| Retirement benefits - defined contribution plan    | <b>25</b>   | 23   | 18   |
| Retirement benefits (costs) - defined benefit plan | <b>(3)</b>  | 66   | 23   |
|                                                    | <b>P712</b> | P625 | P609 |

## 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 lease's life ranges from one to twenty six 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:

|                                             | 2014           | 2013    | 2012    |
|---------------------------------------------|----------------|---------|---------|
| Within one year                             | <b>P1,181</b>  | P1,110  | P913    |
| After one year but not more than five years | <b>2,814</b>   | 3,490   | 2,998   |
| After five years                            | <b>9,296</b>   | 8,554   | 6,861   |
|                                             | <b>P13,291</b> | P13,154 | P10,772 |

### 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 two to nine 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:

|                                             | <b>2014</b> | 2013 | 2012 |
|---------------------------------------------|-------------|------|------|
| Within one year                             | <b>P279</b> | P284 | P298 |
| After one year but not more than five years | <b>322</b>  | 384  | 344  |
| After five years                            | <b>25</b>   | 43   | 69   |
|                                             | <b>P626</b> | P711 | P711 |

### **30. Retirement Plan**

The succeeding tables summarize the components of net retirement benefits cost (income) under a defined benefit retirement plan recognized in profit or loss and the funding status and amounts of retirement plan recognized in the consolidated statements of financial position. 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 December 31, 2014. 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<br>Defined Benefit Obligation |          |          | Fair Value of Plan Assets |        |         | Effect of Asset Ceiling |          |          | Net Defined Benefit<br>Retirement Asset (Liability) |         |         |
|----------------------------------------------------------|------------------------------------------------|----------|----------|---------------------------|--------|---------|-------------------------|----------|----------|-----------------------------------------------------|---------|---------|
|                                                          | 2014                                           | 2013     | 2012     | 2014                      | 2013   | 2012    | 2014                    | 2013     | 2012     | 2014                                                | 2013    | 2012    |
| <b>Balance at beginning of year</b>                      | <b>(P5,867)</b>                                | (P5,671) | (P3,634) | <b>P9,598</b>             | P5,021 | P10,206 | <b>(P1,448)</b>         | (P33)    | (P3,249) | <b>P2,283</b>                                       | (P683)  | P3,323  |
| <b>Benefit obligation of a newly acquired subsidiary</b> | -                                              | -        | (834)    | -                         | -      | -       | -                       | -        | -        | -                                                   | -       | (834)   |
| <b>Recognized in profit or loss</b>                      |                                                |          |          |                           |        |         |                         |          |          |                                                     |         |         |
| Current service cost                                     | <b>(302)</b>                                   | (283)    | (203)    | -                         | -      | -       | -                       | -        | -        | <b>(302)</b>                                        | (283)   | (203)   |
| Interest expense                                         | <b>(311)</b>                                   | (311)    | (266)    | -                         | -      | -       | -                       | -        | -        | <b>(311)</b>                                        | (311)   | (266)   |
| Interest income                                          | -                                              | -        | -        | <b>500</b>                | 273    | 508     | -                       | -        | -        | <b>500</b>                                          | 273     | 508     |
| Interest on the effect of asset ceiling                  | -                                              | -        | -        | -                         | -      | -       | <b>(77)</b>             | (2)      | (200)    | <b>(77)</b>                                         | (2)     | (200)   |
| Settlement gain                                          | <b>99</b>                                      | -        | -        | -                         | -      | -       | -                       | -        | -        | <b>99</b>                                           | -       | -       |
|                                                          | <b>(514)</b>                                   | (594)    | (469)    | <b>500</b>                | 273    | 508     | <b>(77)</b>             | (2)      | (200)    | <b>(91)</b>                                         | (323)   | (161)   |
| <b>Recognized in other comprehensive income</b>          |                                                |          |          |                           |        |         |                         |          |          |                                                     |         |         |
| Remeasurements:                                          |                                                |          |          |                           |        |         |                         |          |          |                                                     |         |         |
| Actuarial (gains) losses arising from:                   |                                                |          |          |                           |        |         |                         |          |          |                                                     |         |         |
| Experience adjustments                                   | <b>(235)</b>                                   | 53       | (413)    | -                         | -      | -       | -                       | -        | -        | <b>(235)</b>                                        | 53      | (413)   |
| Changes in financial assumptions                         | <b>(331)</b>                                   | (101)    | (210)    | -                         | -      | -       | -                       | -        | -        | <b>(331)</b>                                        | (101)   | (210)   |
| Changes in demographic assumptions                       | <b>466</b>                                     | 42       | (327)    | -                         | -      | -       | -                       | -        | -        | <b>466</b>                                          | 42      | (327)   |
| Return on plan asset excluding interest                  | -                                              | -        | -        | <b>(6,081)</b>            | 4,651  | (5,552) | -                       | -        | -        | <b>(6,081)</b>                                      | 4,651   | (5,552) |
| Changes in the effect of asset ceiling                   | -                                              | -        | -        | -                         | -      | -       | <b>1,525</b>            | (1,413)  | 3,416    | <b>1,525</b>                                        | (1,413) | 3,416   |
|                                                          | <b>(100)</b>                                   | (6)      | (950)    | <b>(6,081)</b>            | 4,651  | (5,552) | <b>1,525</b>            | (1,413)  | 3,416    | <b>(4,656)</b>                                      | 3,232   | (3,086) |
| <b>Others</b>                                            |                                                |          |          |                           |        |         |                         |          |          |                                                     |         |         |
| Benefits paid                                            | <b>485</b>                                     | 413      | 207      | <b>(414)</b>              | (347)  | (170)   | -                       | -        | -        | <b>71</b>                                           | 66      | 37      |
| Transfers from other plans/affiliate                     | -                                              | (38)     | -        | -                         | -      | -       | -                       | -        | -        | -                                                   | (38)    | -       |
| Transfers from other plans/affiliate                     | -                                              | 38       | (29)     | -                         | -      | 29      | -                       | -        | -        | -                                                   | 38      | -       |
| Translation adjustment                                   | <b>49</b>                                      | (9)      | 38       | -                         | -      | -       | -                       | -        | -        | <b>49</b>                                           | (9)     | 38      |
|                                                          | <b>534</b>                                     | 404      | 216      | <b>(414)</b>              | (347)  | (141)   | -                       | -        | -        | <b>120</b>                                          | 57      | 75      |
| <b>Balance at end of year</b>                            | <b>(P5,947)</b>                                | (P5,867) | (P5,671) | <b>P3,603</b>             | P9,598 | P5,021  | <b>P -</b>              | (P1,448) | (P33)    | <b>(P2,344)</b>                                     | P2,283  | (P683)  |

The above net defined benefit retirement asset (liability) was recognized in the consolidated statements of financial position as follows:

|                                                    | <i>Note</i> | <b>2014</b>     | 2013   |
|----------------------------------------------------|-------------|-----------------|--------|
| Other noncurrent assets - net                      | 15          | <b>P -</b>      | P3,169 |
| Trade and other payables                           | 17          | <b>(71)</b>     | (66)   |
| Retirement benefits liability (noncurrent portion) |             | <b>(2,273)</b>  | (820)  |
|                                                    |             | <b>(P2,344)</b> | P2,283 |

Retirement costs (income) recognized in the consolidated statements of income by the Parent Company amounted to (P11), P205 and P86 in 2014, 2013 and 2012, respectively.

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P102, P118 and P75 in 2014, 2013 and 2012, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2014 and 2013.

Plan assets consist of the following:

|                       | <b>2014</b> | 2013 |
|-----------------------|-------------|------|
| Shares of stock       |             |      |
| Quoted                | <b>78%</b>  | 80%  |
| Unquoted              | <b>5%</b>   | 6%   |
| Government securities | <b>8%</b>   | 4%   |
| Cash                  | <b>2%</b>   | 5%   |
| Others                | <b>7%</b>   | 5%   |
|                       | <b>100%</b> | 100% |

#### *Investment in Shares of Stock*

As of December 31, 2014, the Parent Company's plan assets include 731,156,097 common shares of Petron with fair market value per share of P10.60, 2,000,000 Series "2", Subseries "A" and 2,000,000 Series "2", Subseries "B" preferred shares of SMC with fair market value per share of P75.60 and P78.15, respectively, and investment in Petron bonds amounting to P127.

The Group's plan recognized a gain (loss) on the investment in marketable securities and bonds of the Company and SMC amounting to (P4,870) and P5,228 in 2014 and 2013, respectively.

Dividend income from the investment in shares of stock of Petron and SMC amounted to P76, P99, and P164 in 2014, 2013, and 2012, respectively.

The Group plan's investment in shares of stock also includes investment in the common shares of PAHL amounting to P1,553 and P1,660 representing 54% ownership equity in PAHL as of December 31, 2014 and 2013 respectively, composed of 102,142,858 ordinary B shares and 273,000,000 ordinary shares.

On March 27, 2014 and August 19, 2014, the plan sold 470,000,000 common shares and 380,000,000 common shares, respectively of the Parent Company, through the facilities of the PSE. On December 5, 2014, the plan acquired 195,000,000 common shares through the PSE.

#### *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 cash and cash equivalents and 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 is not expected to contribute to its defined benefit retirement plan in 2015.

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:

|                         | 2014                  | 2013           | 2012          |
|-------------------------|-----------------------|----------------|---------------|
| Discount rate           | <b>4.49% to 5.50%</b> | 5.00% to 6.26% | 5.00% - 6.30% |
| Future salary increases | <b>6.00% to 8.00%</b> | 6.00% to 8.00% | 6.00% - 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 7.51 to 27.78 years and 7.55 to 28.18 years as of December 31, 2014 and 2013, 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:

|                             | <b>Defined Benefit Liabilities</b> |                           |
|-----------------------------|------------------------------------|---------------------------|
|                             | <b>1 Percent Increase</b>          | <b>1 Percent Decrease</b> |
| <b>2014</b>                 |                                    |                           |
| <b>Discount rate</b>        | <b>(P461)</b>                      | <b>P538</b>               |
| <b>Salary increase rate</b> | <b>494</b>                         | <b>(434)</b>              |
|                             | <b>Defined Benefit Assets</b>      |                           |
|                             | <b>1 Percent Increase</b>          | <b>1 Percent Decrease</b> |
| <b>2013</b>                 |                                    |                           |
| Discount rate               | P467                               | (P541)                    |
| Salary increase rate        | (490)                              | 433                       |

The Parent Company has advances to PCERP amounting to P6,263 and P16,393 as of December 31, 2014 and 2013, respectively, included as part of “Other receivables” and “Other noncurrent assets” account in the consolidated statements of financial position (Notes 9 and 15). The advances are subject to interest of 5% in 2014 and 2013 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2014 and 2013 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not made any provision for impairment losses relating to the receivables from retirement plan for the years ended December 31, 2014 and 2013.

### **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 for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of “Liabilities for crude oil and petroleum product importation” account in the consolidated statements of financial position as of December 31, 2014 and 2013.

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 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% from spot purchases.

#### *Supply Contract with National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM)*

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

As of December 31, 2014, the following are the fuel supply contracts granted to the Parent Company:

#### NPC

| Bid Date      | Date of Award | Contract Duration                                         | Volume in KL |       |      | Contract Price |      |      |
|---------------|---------------|-----------------------------------------------------------|--------------|-------|------|----------------|------|------|
|               |               |                                                           | DFO*         | IFO*  | ELO* | DFO*           | IFO* | ELO* |
| Nov. 12, 2013 | Jan. 2, 2014  | NPC Lubuangan DP & Others 2014 with 6 months extension)   | 33,851       |       |      | 1,516          |      |      |
| Jan. 22, 2014 | Feb. 21, 2014 | NPC Lubuangan DP & Others (with 6 months extension)       |              | 9,950 |      |                | 370  |      |
| Jun 3, 2014   | Jul 11, 2014  | NPC ELO Patnanungan DP & Others (with 6 months extension) |              |       | 180  |                |      | 23   |

#### PSALM

| Bid Date      | Date of Award | Contract Duration                                                                          | Volume in KL |       |      | Contract Price |      |      |
|---------------|---------------|--------------------------------------------------------------------------------------------|--------------|-------|------|----------------|------|------|
|               |               |                                                                                            | DFO*         | IFO*  | ELO* | DFO*           | IFO* | ELO* |
| Mar. 26, 2014 | Apr. 23, 2014 | Power Barge 101 & 102 (April-December 2014 with 6 months extension)                        | 411          |       |      | 18             |      |      |
| Mar. 26, 2014 | Apr. 23, 2014 | Power Barge 104 (April-December 2014 with 6 months extension)                              | 260          |       |      | 11             |      |      |
| Mar. 26, 2014 | Apr. 23, 2014 | Naga Plant Complex Corporation (April-December 2014 with 6 months extension)               | 301          |       |      | 13             |      |      |
| Mar. 26, 2014 | Apr. 23, 2014 | Southern Philippines Power Corporation (April-December with 6 months extension)            | 90           |       |      | 4              |      |      |
| Jun. 26, 2014 | Jul. 25, 2014 | Power Barge 101 & 102 (April-December 2014 with 6 months extension)                        |              | 2,091 |      |                | 72   |      |
| Jun. 26, 2014 | Jul. 25, 2014 | Power Barge 104 (April-December 2014 with 6 months extension)                              |              | 2,554 |      |                | 87   |      |
| May 27, 2014  | Aug. 12, 2014 | Power Barge 101 and 102 (August-December 2014 with 6 months extension)                     |              |       | 60   |                |      | 6    |
| May 27, 2014  | Aug. 12, 2014 | Power Barge 104 (August-December 2014 with 6 months extension)                             |              |       | 90   |                |      | 9    |
| Apr. 4, 2014  | Aug. 22, 2014 | Power Barge 104 Supplemental (August-December 2014 with 6 months extension)                | 60           |       |      | 2              |      |      |
| Feb. 24, 2014 | Aug. 22, 2014 | Naga Plant Complex Corporation Supplemental (August-December 2014 with 6 months extension) | 500          |       |      | 21             |      |      |
| Jul. 10, 2014 | Aug. 22, 2014 | Malaya Thermal (August-December 2014 with 6 months extension)                              | 1,000        |       |      | 41             |      |      |

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

In the bidding for the Supply & Delivery of Oil-Based Fuel to NPC, PSALM, IPPs and Small Power Utilities Group (SPUG) Plants/Barges for the year 2014, Petron was awarded to supply a total of 36,473 kilo-liters (KL) worth P1,625 (2013 - 30,366 KL worth P1,344) of diesel fuel; 14,595 KL worth P530 (2013 - 22,989 KL worth P718) of bunker fuel and 330 KL worth of P39 of engine lubricating oil (2013 - 274 KL worth P27).

*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, filling 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 P49, P37 and P33 in 2014, 2013 and 2012, 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 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-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 December 31, 2014 and 2013, 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 per share amounts are computed as follows:

|                                                                                                           | 2014            | 2013    | 2012   |
|-----------------------------------------------------------------------------------------------------------|-----------------|---------|--------|
| Net income attributable to equity holders of the Parent Company                                           | <b>P3,320</b>   | P5,247  | P1,701 |
| Dividends on preferred shares for the period                                                              | <b>(1,114)</b>  | (953)   | (953)  |
| Distributions to the holders of USCS                                                                      | <b>(3,580)</b>  | (1,674) | -      |
| Net income (loss) attributable to common shareholders of the Parent Company (a)                           | <b>(P1,374)</b> | P2,620  | P748   |
| Weighted average number of common shares outstanding (in millions) (b)                                    | <b>9,375</b>    | 9,375   | 9,375  |
| Basic/Diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b) | <b>(P0.15)</b>  | P0.28   | P0.08  |

As of December 31, 2014, 2013 and 2012, the Parent Company has no potential dilutive debt or equity instruments.

### 33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

|                                                                                                                        | 2014            | 2013     | 2012     |
|------------------------------------------------------------------------------------------------------------------------|-----------------|----------|----------|
| Decrease (increase) in assets:                                                                                         |                 |          |          |
| Trade receivables                                                                                                      | <b>P11,226</b>  | (P3,971) | (P3,484) |
| Inventories                                                                                                            | <b>(1,547)</b>  | (1,819)  | 1,341    |
| Other current assets                                                                                                   | <b>(4,753)</b>  | (1,247)  | (2,469)  |
| Increase (decrease) in liabilities:                                                                                    |                 |          |          |
| Liabilities for crude oil and petroleum product importation                                                            | <b>(16,122)</b> | 9,747    | (3,909)  |
| Trade and other payables and others                                                                                    | <b>5,083</b>    | 19,070   | 4,310    |
|                                                                                                                        | <b>(6,113)</b>  | 21,780   | (4,211)  |
| Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence and others | <b>(286)</b>    | 630      | 383      |
|                                                                                                                        | <b>(P6,399)</b> | P22,410  | (P3,828) |

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### 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 Financial Risk Management Unit of the Treasurer's Department, which is in charge of foreign currency hedging transactions.
- c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.
- d. The Corporate Technical & Engineering Services Group, which oversees strict adherence to safety and environmental mandates across all facilities.
- e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.
- f. The Commodity Risk Management Department (CRMD), which sets new and updates existing hedging policies by the Board, provides the strategic targets and recommends corporate hedging strategy to the Commodity Risk Management Committee and Steering Committee.
- g. Petron Singapore Trading Pte. Ltd. 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 Committee, which ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.
- b. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD through the Audit 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:

|                                                                        | 2014           |                          | 2013           |                          |
|------------------------------------------------------------------------|----------------|--------------------------|----------------|--------------------------|
|                                                                        | US dollar      | Phil. peso<br>Equivalent | US dollar      | Phil. peso<br>Equivalent |
| <b>Assets</b>                                                          |                |                          |                |                          |
| Cash and cash equivalents                                              | 1,252          | 56,039                   | 439            | 19,479                   |
| Trade and other receivables                                            | 585            | 26,168                   | 899            | 39,926                   |
| Other assets                                                           | 53             | 2,357                    | 61             | 2,691                    |
|                                                                        | <b>1,890</b>   | <b>84,564</b>            | 1,399          | 62,096                   |
| <b>Liabilities</b>                                                     |                |                          |                |                          |
| Short-term loans                                                       | 776            | 34,713                   | 440            | 19,546                   |
| Liabilities for crude oil and<br>petroleum product importation         | 945            | 42,263                   | 1,347          | 59,804                   |
| Long-term debts (including<br>current maturities)                      | 1,111          | 49,676                   | 759            | 33,708                   |
| Other liabilities                                                      | 712            | 31,869                   | 507            | 22,483                   |
|                                                                        | <b>3,544</b>   | <b>158,521</b>           | 3,053          | 135,541                  |
| <b>Net foreign currency -<br/>denominated monetary<br/>liabilities</b> | <b>(1,654)</b> | <b>(73,957)</b>          | <b>(1,654)</b> | <b>(73,445)</b>          |

The Group incurred net foreign currency gains/(losses) amounting to (P1,617), (P4,109) and P1,270 in 2014, 2013 and 2012, respectively (Note 26), that were mainly countered by certain marked-to-market and 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, 2012        | 41.05        |
| December 31, 2013        | 44.40        |
| <b>December 31, 2014</b> | <b>44.72</b> |

The 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, 2014 and 2013:

|                                                                   | P1 Decrease in the US<br>dollar Exchange Rate |                     | P1 Increase in the US<br>dollar Exchange Rate |                     |
|-------------------------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                                   | Effect on<br>Income Before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income Before<br>Income Tax      | Effect on<br>Equity |
| <b>2014</b>                                                       |                                               |                     |                                               |                     |
| Cash and cash equivalents                                         | (P882)                                        | (P988)              | P882                                          | P988                |
| Trade and other receivables                                       | (51)                                          | (570)               | 51                                            | 570                 |
| Other assets                                                      | (32)                                          | (43)                | 32                                            | 43                  |
|                                                                   | (965)                                         | (1,601)             | 965                                           | 1,601               |
| Short-term loans                                                  | 450                                           | 641                 | (450)                                         | (641)               |
| Liabilities for crude oil and<br>petroleum product<br>importation | 297                                           | 856                 | (297)                                         | (856)               |
| Long-term debts (including<br>current maturities)                 | 1,025                                         | 803                 | (1,025)                                       | (803)               |
| Other liabilities                                                 | 636                                           | 522                 | (636)                                         | (522)               |
|                                                                   | 2,408                                         | 2,822               | (2,408)                                       | (2,822)             |
|                                                                   | P1,443                                        | P1,221              | (P1,443)                                      | (P1,221)            |
|                                                                   |                                               |                     |                                               |                     |
|                                                                   | P1 Decrease in the US<br>dollar Exchange Rate |                     | P1 Increase in the US<br>dollar Exchange Rate |                     |
|                                                                   | Effect on<br>Income Before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income Before<br>Income Tax      | Effect on<br>Equity |
| <b>2013</b>                                                       |                                               |                     |                                               |                     |
| Cash and cash equivalents                                         | (P229)                                        | (P370)              | P229                                          | P370                |
| Trade and other receivables                                       | (46)                                          | (885)               | 46                                            | 885                 |
| Other assets                                                      | (44)                                          | (48)                | 44                                            | 48                  |
|                                                                   | (319)                                         | (1,303)             | 319                                           | 1,303               |
| Short-term loans                                                  | 30                                            | 431                 | (30)                                          | (431)               |
| Liabilities for crude oil and<br>petroleum product<br>importation | 466                                           | 1,207               | (466)                                         | (1,207)             |
| Long-term debts (including<br>current maturities)                 | 759                                           | 531                 | (759)                                         | (531)               |
| Other liabilities                                                 | 432                                           | 377                 | (432)                                         | (377)               |
|                                                                   | 1,687                                         | 2,546               | (1,687)                                       | (2,546)             |
|                                                                   | P1,368                                        | P1,243              | (P1,368)                                      | (P1,243)            |

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.

The management of 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 P497 and P337 in 2014 and 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

### Interest Rate Risk Table

As of December 31, 2014 and 2013, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| 2014                                                   | <1 Year     | 1-<2 Years                        | 2-<3 Years                        | 3-<4 Years                        | 4-<5 Years                        | >5 Years    | Total   |
|--------------------------------------------------------|-------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------|---------|
| <b>Fixed Rate</b>                                      |             |                                   |                                   |                                   |                                   |             |         |
| Philippine peso<br>denominated                         | P36         | P36                               | P20,036                           | P678                              | P29                               | P2,677      | P23,492 |
| Interest rate                                          | 6.3% - 7.2% | 6.3% - 7.2%                       | 6.3% - 7.2%                       | 6.3% - 7.2%                       | 6.3% - 7.2%                       | 6.3% - 7.2% |         |
| <b>Floating Rate</b>                                   |             |                                   |                                   |                                   |                                   |             |         |
| Malaysian ringgit<br>denominated<br>(expressed in PhP) | -           | 746                               | 1,280                             | 1,280                             | 534                               | -           | 3,840   |
| Interest rate                                          |             | 1.5%+COF                          | 1.5%+COF                          | 1.5%+COF                          | 1.5%+COF                          |             |         |
| US\$ denominated<br>(expressed in PhP)                 | 6,101       | 18,399                            | 12,266                            | 6,069                             | 3,035                             | -           | 45,870  |
| Interest rate*                                         |             | 1, 3, 6 mos.<br>Libor +<br>margin | 1, 3, 6 mos.<br>Libor +<br>margin | 1, 3, 6 mos.<br>Libor +<br>margin | 1, 3, 6 mos.<br>Libor +<br>margin |             |         |
|                                                        | P6,137      | P19,181                           | P33,582                           | P8,027                            | P3,598                            | P2,677      | P73,202 |

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

| 2013                                                 | <1 Year                                 | 1-<2 Years                               | 2-<3 Years                               | 3-<4 Years                              | 4-<5 Years          | >5 Years       | Total   |
|------------------------------------------------------|-----------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------|---------------------|----------------|---------|
| Fixed Rate Philippine peso denominated Interest rate | P5,284<br>6.3% - 9.3%                   | P84<br>6.3% - 9.3%                       | P4,548<br>6.3% - 9.3%                    | P20,036<br>6.3% - 7.2%                  | P678<br>6.3% - 7.2% | P2,707<br>7.2% | P33,337 |
| US\$ denominated (expressed in Php) Interest rate*   | 3,076<br>1, 3, 6 mos.<br>Libor + margin | 12,240<br>1, 3, 6 mos.<br>Libor + margin | 12,240<br>1, 3, 6 mos.<br>Libor + margin | 6,152<br>1, 3, 6 mos.<br>Libor + margin | -                   | -              | 33,708  |
|                                                      | P8,360                                  | P12,324                                  | P16,788                                  | P26,188                                 | P678                | P2,707         | P67,045 |

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

### Credit Risk

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

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

|                                                         | <i>Note</i> | <b>2014</b>     | 2013     |
|---------------------------------------------------------|-------------|-----------------|----------|
| Cash in bank and cash equivalents (net of cash on hand) | 6           | <b>P87,906</b>  | P46,356  |
| Derivative assets                                       | 7           | <b>334</b>      | 666      |
| Available-for-sale financial assets                     | 8           | <b>881</b>      | 915      |
| Trade and other receivables - net                       | 9           | <b>56,299</b>   | 67,667   |
| Due from related parties                                | 15          | <b>1,747</b>    | 10,877   |
| Long-term receivables - net                             | 15          | <b>43</b>       | 45       |
| Noncurrent deposits                                     | 15          | <b>90</b>       | 92       |
|                                                         |             | <b>P147,300</b> | P126,618 |

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 9). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,653 and P4,827 as of December 31, 2014 and 2013, 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 TAR as of December 31, 2014 and 2013 are shown below (Note 9):

|                          | <b>Neither Past Due<br/>nor Impaired</b> | <b>Past Due but<br/>not Impaired</b> | <b>Impaired</b> | <b>Total</b>   |
|--------------------------|------------------------------------------|--------------------------------------|-----------------|----------------|
| <b>December 31, 2014</b> |                                          |                                      |                 |                |
| Reseller                 | <b>P3,586</b>                            | <b>P144</b>                          | <b>P35</b>      | <b>P3,765</b>  |
| Lubes                    | <b>250</b>                               | <b>26</b>                            | <b>19</b>       | <b>295</b>     |
| Gasul                    | <b>548</b>                               | <b>55</b>                            | <b>147</b>      | <b>750</b>     |
| Industrial               | <b>7,702</b>                             | <b>2,114</b>                         | <b>494</b>      | <b>10,310</b>  |
| Others                   | <b>2,277</b>                             | <b>1,162</b>                         | <b>105</b>      | <b>3,544</b>   |
|                          | <b>P14,363</b>                           | <b>P3,501</b>                        | <b>P800</b>     | <b>P18,664</b> |
|                          |                                          |                                      |                 |                |
|                          | Neither Past Due<br>nor Impaired         | Past Due but<br>not Impaired         | Impaired        | Total          |
| December 31, 2013        |                                          |                                      |                 |                |
| Reseller                 | P4,880                                   | P309                                 | P37             | P5,226         |
| Lubes                    | 253                                      | 12                                   | 20              | 285            |
| Gasul                    | 920                                      | 42                                   | 152             | 1,114          |
| Industrial               | 14,321                                   | 4,550                                | 660             | 19,531         |
| Others                   | 3,214                                    | 301                                  | 103             | 3,618          |
|                          | P23,588                                  | P5,214                               | P972            | P29,774        |

*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 TAR as of December 31, 2014 and 2013:

|                          | Trade Accounts Receivables Per Class |               |               |                |
|--------------------------|--------------------------------------|---------------|---------------|----------------|
|                          | Class A                              | Class B       | Class C       | Total          |
| <b>December 31, 2014</b> |                                      |               |               |                |
| Reseller                 | <b>P3,225</b>                        | <b>P494</b>   | <b>P46</b>    | <b>P3,765</b>  |
| Lubes                    | <b>190</b>                           | <b>84</b>     | <b>21</b>     | <b>295</b>     |
| Gasul                    | <b>228</b>                           | <b>396</b>    | <b>126</b>    | <b>750</b>     |
| Industrial               | <b>2,828</b>                         | <b>5,848</b>  | <b>1,634</b>  | <b>10,310</b>  |
| Others                   | <b>1,271</b>                         | <b>2,050</b>  | <b>223</b>    | <b>3,544</b>   |
|                          | <b>P7,742</b>                        | <b>P8,872</b> | <b>P2,050</b> | <b>P18,664</b> |

|                          | Trade Accounts Receivables Per Class |         |         |         |
|--------------------------|--------------------------------------|---------|---------|---------|
|                          | Class A                              | Class B | Class C | Total   |
| <b>December 31, 2013</b> |                                      |         |         |         |
| Reseller                 | P2,533                               | P2,439  | P254    | P5,226  |
| Lubes                    | 190                                  | 71      | 24      | 285     |
| Gasul                    | 533                                  | 416     | 165     | 1,114   |
| Industrial               | 6,161                                | 11,507  | 1,863   | 19,531  |
| Others                   | 990                                  | 1,998   | 630     | 3,618   |
|                          | P10,407                              | P16,431 | P2,936  | P29,774 |

#### 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, 2014 and 2013.

| <b>2014</b>                                                                                       | <b>Carrying Amount</b> | <b>Contractual Cash Flow</b> | <b>1 Year or Less</b> | <b>&gt;1 Year - 2 Years</b> | <b>&gt;2 Years - 5 Years</b> | <b>Over 5 Years</b> |
|---------------------------------------------------------------------------------------------------|------------------------|------------------------------|-----------------------|-----------------------------|------------------------------|---------------------|
| <b>Financial Assets</b>                                                                           |                        |                              |                       |                             |                              |                     |
| Cash and cash equivalents                                                                         | P90,602                | P90,602                      | P90,602               | P -                         | P -                          | P -                 |
| Trade and other receivables                                                                       | 56,299                 | 56,299                       | 56,299                | -                           | -                            | -                   |
| Due from related parties                                                                          | 1,747                  | 1,747                        | -                     | 1,747                       | -                            | -                   |
| Derivative assets                                                                                 | 334                    | 334                          | 334                   | -                           | -                            | -                   |
| Financial assets at FVPL                                                                          | 136                    | 136                          | 136                   | -                           | -                            | -                   |
| AFS financial assets                                                                              | 881                    | 932                          | 475                   | 243                         | 214                          | -                   |
| Long-term receivables - net                                                                       | 43                     | 52                           | -                     | 14                          | 14                           | 24                  |
| Noncurrent deposits                                                                               | 90                     | 91                           | -                     | 2                           | 9                            | 80                  |
| <b>Financial Liabilities</b>                                                                      |                        |                              |                       |                             |                              |                     |
| Short-term loans                                                                                  | 133,388                | 134,232                      | 134,232               | -                           | -                            | -                   |
| Liabilities for crude oil and petroleum product importation                                       | 24,032                 | 24,032                       | 24,032                | -                           | -                            | -                   |
| Accounts payable and accrued expenses (excluding taxes payable and retirement benefits liability) | 36,807                 | 36,807                       | 36,807                | -                           | -                            | -                   |
| Derivative liabilities                                                                            | 98                     | 98                           | 98                    | -                           | -                            | -                   |
| Long-term debts (including current maturities)                                                    | 72,129                 | 84,857                       | 6,774                 | 22,656                      | 52,242                       | 3,185               |
| Cash bonds                                                                                        | 870                    | 873                          | -                     | 864                         | 3                            | 6                   |
| Cylinder deposits                                                                                 | 442                    | 442                          | -                     | -                           | -                            | 442                 |
| Other noncurrent liabilities                                                                      | 61                     | 61                           | -                     | -                           | -                            | 61                  |
| <b>2013</b>                                                                                       | <b>Carrying Amount</b> | <b>Contractual Cash Flow</b> | <b>1 Year or Less</b> | <b>&gt;1 Year - 2 Years</b> | <b>&gt;2 Years - 5 Years</b> | <b>Over 5 Years</b> |
| <b>Financial Assets</b>                                                                           |                        |                              |                       |                             |                              |                     |
| Cash and cash equivalents                                                                         | P50,398                | P50,398                      | P50,398               | P -                         | P -                          | P -                 |
| Trade and other receivables                                                                       | 67,667                 | 67,667                       | 67,667                | -                           | -                            | -                   |
| Due from related parties                                                                          | 10,877                 | 10,877                       | -                     | 10,877                      | -                            | -                   |
| Derivative assets                                                                                 | 666                    | 666                          | 666                   | -                           | -                            | -                   |
| Financial assets at FVPL                                                                          | 117                    | 117                          | 117                   | -                           | -                            | -                   |
| AFS financial assets                                                                              | 915                    | 942                          | 513                   | 304                         | 125                          | -                   |
| Long-term receivables - net                                                                       | 45                     | 55                           | 8                     | 6                           | 15                           | 26                  |
| Noncurrent deposits                                                                               | 92                     | 92                           | -                     | 2                           | 11                           | 79                  |
| <b>Financial Liabilities</b>                                                                      |                        |                              |                       |                             |                              |                     |
| Short-term loans                                                                                  | 100,071                | 100,532                      | 100,532               | -                           | -                            | -                   |
| Liabilities for crude oil and petroleum product importation                                       | 38,707                 | 38,707                       | 38,707                | -                           | -                            | -                   |
| Accounts payable and accrued expenses (excluding taxes payable and retirement benefits liability) | 28,266                 | 28,266                       | 28,266                | -                           | -                            | -                   |
| Derivative liabilities                                                                            | 152                    | 152                          | 152                   | -                           | -                            | -                   |
| Long-term debts (including current maturities)                                                    | 66,187                 | 79,008                       | 11,899                | 15,475                      | 48,351                       | 3,283               |
| Cash bonds                                                                                        | 363                    | 372                          | -                     | 364                         | 3                            | 5                   |
| Cylinder deposits                                                                                 | 210                    | 210                          | -                     | -                           | -                            | 210                 |
| Other noncurrent liabilities                                                                      | 3,966                  | 3,991                        | -                     | 3,938                       | 11                           | 42                  |

### 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, buying of put options, collars and 3-way options) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Group's management.

### Other Market Price Risk

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

### Capital Management

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

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

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

|                      | 2014            | 2013     |
|----------------------|-----------------|----------|
| Total assets         | <b>P391,324</b> | P357,458 |
| Total liabilities    | <b>277,632</b>  | 245,570  |
| Total equity         | <b>113,692</b>  | 111,888  |
| Debt to equity ratio | <b>2.4:1</b>    | 2.2:1    |

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

### 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:

|                                                                                                               |      | 2014     |          | 2013     |          |
|---------------------------------------------------------------------------------------------------------------|------|----------|----------|----------|----------|
|                                                                                                               |      | Carrying | Fair     | Carrying | Fair     |
|                                                                                                               | Note | Value    | Value    | Value    | Value    |
| Financial assets (FA):                                                                                        |      |          |          |          |          |
| Cash and cash equivalents                                                                                     | 6    | P90,602  | P90,602  | P50,398  | P50,398  |
| Trade and other receivables                                                                                   | 9    | 56,299   | 56,299   | 67,667   | 67,667   |
| Due from related parties                                                                                      | 15   | 1,747    | 1,747    | 10,877   | 10,877   |
| Long-term receivables - net                                                                                   | 15   | 43       | 43       | 45       | 45       |
| Noncurrent deposits                                                                                           | 15   | 90       | 90       | 92       | 92       |
| Loans and receivables                                                                                         |      | 148,781  | 148,781  | 129,079  | 129,079  |
| AFS financial assets                                                                                          | 8    | 881      | 881      | 915      | 915      |
| Financial assets at FVPL                                                                                      | 7    | 136      | 136      | 117      | 117      |
| Derivative assets                                                                                             | 7    | 334      | 334      | 666      | 666      |
| FA at FVPL                                                                                                    |      | 470      | 470      | 783      | 783      |
| Total financial assets                                                                                        |      | P150,132 | P150,132 | P130,777 | P130,777 |
|                                                                                                               |      |          |          |          |          |
|                                                                                                               |      | 2014     |          | 2013     |          |
|                                                                                                               |      | Carrying | Fair     | Carrying | Fair     |
|                                                                                                               | Note | Value    | Value    | Value    | Value    |
| Financial liabilities (FL):                                                                                   |      |          |          |          |          |
| Short-term loans                                                                                              | 16   | P133,388 | P133,388 | P100,071 | P100,071 |
| Liabilities for crude oil and petroleum product importation                                                   |      | 24,032   | 24,032   | 38,707   | 38,707   |
| Trade and other payables (excluding specific taxes and other taxes payable and retirement benefits liability) | 17   | 36,807   | 36,807   | 28,266   | 28,266   |
| Long-term debt including current portion                                                                      | 18   | 72,129   | 72,129   | 66,187   | 66,187   |
| Cash bonds                                                                                                    | 20   | 870      | 870      | 363      | 363      |
| Cylinder deposits                                                                                             | 20   | 442      | 442      | 210      | 210      |
| Other noncurrent liabilities                                                                                  | 20   | 38       | 38       | 3,966    | 3,966    |
| FL at amortized cost                                                                                          |      | 267,706  | 267,706  | 237,770  | 237,770  |
| Derivative liabilities                                                                                        |      | 98       | 98       | 152      | 152      |
| Total financial liabilities                                                                                   |      | P267,804 | P267,804 | P237,922 | P237,922 |

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 quoted market prices in an active market. 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 2014 and 2013 are 5.69% and 5.34%, respectively.

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

#### Derivative Financial Instruments

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

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

#### Freestanding Derivatives

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

#### *Currency Forwards*

As of December 31, 2014 and 2013, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,673 million and US\$1,445 million, respectively, and with various maturities in 2015 and 2014. As of December 31, 2014, the net fair value of these currency forwards is minimal while the December 31, 2013 figure amounted to P640.

#### *Commodity Swaps*

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015. 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 6.6 million barrels and 2.0 million barrels for 2014 and 2013, respectively. The estimated net receipts for these transactions amounted to P1,420 and P6 for 2014 and 2013, respectively.

#### *Commodity Options*

As of December 31, 2014, 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, 2013, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$83 million while the December 31, 2014 figure is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2013, the net negative fair value of these embedded currency forwards amounted to (P68) while the December 31, 2014 figure is minimal.

For the years ended December 31, 2014, 2013 and 2012 the Group recognized marked-to-market gains/(losses) from freestanding and embedded derivatives amounting to P733, P2,514 and (P845), respectively (Note 26).

#### Fair Value Changes on Derivatives

The net movements in fair value of all derivative transactions in 2014 and 2013 are as follows:

|                                           | <i>Note</i> | <b>2014</b>    | 2013    |
|-------------------------------------------|-------------|----------------|---------|
| Fair value at beginning of year           |             | <b>P514</b>    | (P206)  |
| Net changes in fair value during the year | 26          | <b>733</b>     | 2,514   |
| Fair value of settled instruments         |             | <b>(1,011)</b> | (1,794) |
| Balance at end of year                    |             | <b>P236</b>    | P514    |

#### 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 are classified 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, 2014 and 2013. 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 that are not based on observable market data.

| <b>2014</b>            | <b>Level 1</b> | <b>Level 2</b> | <b>Total</b> |
|------------------------|----------------|----------------|--------------|
| Financial Assets:      |                |                |              |
| FVPL                   | <b>P136</b>    | <b>P -</b>     | <b>P136</b>  |
| Derivative assets      | -              | <b>334</b>     | <b>334</b>   |
| AFS financial assets   | <b>372</b>     | <b>509</b>     | <b>881</b>   |
| Financial Liabilities: |                |                |              |
| Derivative liabilities | -              | <b>(98)</b>    | <b>(98)</b>  |
| <b>2013</b>            | <b>Level 1</b> | <b>Level 2</b> | <b>Total</b> |
| Financial Assets:      |                |                |              |
| FVPL                   | P117           | P -            | P117         |
| Derivative assets      | -              | 666            | 666          |
| AFS financial assets   | 757            | 158            | 915          |
| Financial Liabilities: |                |                |              |
| Derivative liabilities | -              | (152)          | (152)        |

The Group has no financial instruments valued based on Level 3 as of December 31, 2014 and 2013. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### **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, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

- a. 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.

- b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.
- c. Simplification of custom procedures.
- d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports of at least 50% of combined production of Benzene and Toluene.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.
- f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 50% of combined production of Benzene and Toluene.
- h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (one percent for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

The BOI extended the Company's ITH incentive for its propylene sales from December 2013 to November 2014 and for its benzene and toluene sales from May 2014 to April 2015.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.
- d. 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.
- e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.

- f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.
- g. Exemption from real property tax on production equipment or machinery.
- h. Exemption from contractor's tax.

PetroFCC entitlement period ended in February 2013 and registration with BOI was cancelled on July 4, 2013.

#### 70 MW Coal-Fired Power Plant (Limap, Bataan)

On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (EO No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.
- b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.
- c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent duty from date of registration up to June 16, 2011 pursuant to EO No. 528 and its Implementing Rules and Regulations.

The power plant started commercial operations on May 10, 2013 and the Parent Company availed ITH from May to September 2013.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2010-181 covering this 70 MW Coal-Fired Power Plant Project to SMC PowerGen, Inc., the new owner of the said facility.

#### 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.

#### 70 MW Solid Fuel-Fired Power Plant

On February 14, 2013, Petron registered with the BOI as an expanding operator of a 70 MW Solid Fuel-Fired Power Plant on a pioneer status under the Omnibus Investments Code of 1987 (EO No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

- a. ITH for three years from December 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid, other entities and/or communities.
- b. Importation of capital equipment, spare parts and accessories at zero (0) duty from the date of effectivity of Executive Order No. 70 and its Implementing Rules and Regulations for a period of five (5) years reckoned from the date of registration or until the expiration of EO 70, whichever is earlier.
- c. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration No. 2013-047 covering this 70 MW Solid Fuel-Fired Power Plant Project to SMC PowerGen, Inc., the new owner of the said plant.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

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

#### Segment Assets and Liabilities

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

#### Inter-segment Transactions

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

#### Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2014 and 2013.

|                               | Petroleum | Insurance | Leasing | Marketing | Elimination/<br>Others | Total    |
|-------------------------------|-----------|-----------|---------|-----------|------------------------|----------|
| <b>2014</b>                   |           |           |         |           |                        |          |
| 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      |

Forward

|                               | Petroleum | Insurance | Leasing | Marketing | Elimination/<br>Others | Total    |
|-------------------------------|-----------|-----------|---------|-----------|------------------------|----------|
| 2013                          |           |           |         |           |                        |          |
| Revenue:                      |           |           |         |           |                        |          |
| External sales                | P461,087  | P -       | P -     | P2,551    | P -                    | P463,638 |
| Inter-segment sales           | 221,647   | 74        | 560     | -         | (222,281)              | -        |
| Operating income              | 11,019    | 48        | 211     | 68        | 338                    | 11,684   |
| Net income                    | 5,207     | 34        | 40      | 84        | (273)                  | 5,092    |
| Assets and liabilities:       |           |           |         |           |                        |          |
| Segment assets                | 392,599   | 1,606     | 4,933   | 1,083     | (42,925)               | 357,296  |
| Segment liabilities           | 264,539   | 470       | 3,888   | 324       | (28,256)               | 240,965  |
| Other segment information:    |           |           |         |           |                        |          |
| Property, plant and equipment | 136,249   | -         | -       | 251       | 5,147                  | 141,647  |
| Depreciation and amortization | 5,691     | -         | 2       | 51        | 62                     | 5,806    |
| Interest expense              | 5,461     | -         | 189     | 1         | (189)                  | 5,462    |
| Interest income               | 1,440     | 21        | 2       | 11        | (189)                  | 1,285    |
| Income tax expense            | 1,747     | 9         | 14      | 17        | 63                     | 1,850    |

|                               | Petroleum | Insurance | Leasing | Marketing | Elimination/<br>Others | Total    |
|-------------------------------|-----------|-----------|---------|-----------|------------------------|----------|
| 2012                          |           |           |         |           |                        |          |
| Revenue:                      |           |           |         |           |                        |          |
| External sales                | P422,199  | P -       | P -     | P2,596    | P -                    | P424,795 |
| Inter-segment sales           | 182,455   | 117       | 383     | -         | (182,955)              | -        |
| Operating income              | 7,273     | 90        | 171     | 78        | 248                    | 7,860    |
| Net income                    | 1,818     | 159       | 37      | 94        | (328)                  | 1,780    |
| Assets and liabilities:       |           |           |         |           |                        |          |
| Segment assets                | 315,379   | 1,737     | 4,764   | 1,089     | (42,714)               | 280,255  |
| Segment liabilities           | 225,040   | 328       | 3,759   | 313       | (29,153)               | 200,287  |
| Other segment information:    |           |           |         |           |                        |          |
| Property, plant and equipment | 98,904    | -         | -       | 266       | 4,941                  | 104,111  |
| Depreciation and amortization | 5,067     | -         | 2       | 37        | 7                      | 5,113    |
| Interest expense              | 7,507     | -         | 137     | 1         | (137)                  | 7,508    |
| Interest income               | 1,153     | 28        | 5       | 20        | (85)                   | 1,121    |
| Income tax expense            | 395       | 18        | 17      | 19        | 10                     | 459      |

Inter-segment sales transactions amounted to P250,060, P222,281 and P182,955 for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2014, 2013 and 2012:

|                               | Reseller | Lube   | Gasul   | Industrial | Others  | Total    |
|-------------------------------|----------|--------|---------|------------|---------|----------|
| 2014                          |          |        |         |            |         |          |
| Revenue                       | P241,118 | P3,677 | P25,157 | P138,455   | P71,346 | P479,753 |
| Property, plant and equipment | 22,167   | 150    | 393     | 161        | 125,385 | 148,256  |
| Capital expenditures          | 2,256    | -      | 41      | 98         | 102,333 | 104,728  |
| 2013                          |          |        |         |            |         |          |
| Revenue                       | P245,799 | P3,086 | P24,478 | P132,455   | P55,269 | P461,087 |
| Property, plant and equipment | 20,708   | 187    | 421     | 207        | 114,726 | 136,249  |
| Capital expenditures          | 2,689    | -      | 68      | 127        | 89,382  | 92,266   |
| 2012                          |          |        |         |            |         |          |
| Revenue                       | P179,044 | P2,996 | P24,899 | P132,049   | P83,211 | P422,199 |
| Property, plant and equipment | 17,905   | 233    | 446     | 129        | 80,191  | 98,904   |
| Capital expenditures          | 1,250    | 1      | 65      | 32         | 56,243  | 57,591   |

### Geographical Segments

The following table presents segment assets of the Group for the year 2014 and 2013.

|               | 2014            | 2013     |
|---------------|-----------------|----------|
| Local         | <b>P320,516</b> | P284,845 |
| International | <b>70,566</b>   | 72,451   |
|               | <b>P391,082</b> | P357,296 |

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2014, 2013 and 2012.

|                      | Petroleum       | Insurance  | Leasing     | Marketing     | Elimination/<br>Others | Total           |
|----------------------|-----------------|------------|-------------|---------------|------------------------|-----------------|
| <b>2014</b>          |                 |            |             |               |                        |                 |
| Revenue:             |                 |            |             |               |                        |                 |
| Local                | <b>P276,885</b> | <b>P52</b> | <b>P550</b> | <b>P2,782</b> | <b>(P3,538)</b>        | <b>P276,731</b> |
| Export/international | <b>452,296</b>  | <b>30</b>  | -           | -             | <b>(246,522)</b>       | <b>205,804</b>  |
| <b>2013</b>          |                 |            |             |               |                        |                 |
| Revenue:             |                 |            |             |               |                        |                 |
| Local                | P265,989        | P21        | P560        | P2,551        | (P4,676)               | P264,445        |
| Export/international | 416,745         | 53         | -           | -             | (217,605)              | 199,193         |
| <b>2012</b>          |                 |            |             |               |                        |                 |
| Revenue:             |                 |            |             |               |                        |                 |
| Local                | P264,728        | P55        | P383        | P2,596        | (P2,292)               | P265,470        |
| Export/international | 339,926         | 62         | -           | -             | (180,663)              | 159,325         |

### **38. Events After the Reporting Date**

On February 5, 2015, the Parent Company made an additional investment of P525 in MNHPI for common shares to be issued from the increase in authorized capital stock of MNHPI.

On February 6, 2015, the Parent Company paid distributions amounting to US\$28.125 million (P1,770) to the holders of USCS.

On March 5, 2015, the Parent Company redeemed its 2010 Preferred shares at its issue price of P100 per share.

On March 13, 2015, the Parent Company subscribed to an additional 9,354,136 common shares of PGL for US\$1.00 per share or for a total consideration of US\$9,354,136.

On March 17, 2015, the BOD approved cash dividends for common and series 2 preferred shareholders with the following details:

| Type      | Per share | Record date    | Payment date   |
|-----------|-----------|----------------|----------------|
| Common    | P0.05     | April 1, 2015  | April 16, 2015 |
| Series 2A | 15.75     | April 17, 2015 | May 4, 2015    |
| Series 2B | 17.14     | April 17, 2015 | May 4, 2015    |
| Series 2A | 15.75     | July 20, 2015  | August 3, 2015 |
| Series 2B | 17.14     | July 20, 2015  | August 3, 2015 |

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### 39. Other Matters

- a. Petron has unused letters of credit totaling approximately P31,396 and P29,176 as of December 31, 2014 and 2013, respectively.

- b. Tax Credit Certificates Related Cases

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 of Tax Credit Certificate ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron 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, Petron 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 promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals 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, Petron filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2014.

- 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. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into a Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, 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 4 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. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an Order dated December 18, 2012, the RTC of Manila denied the motion filed by the Parent Company. The Parent Company filed a notice of appeal on January 23, 2013. In an Order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant's brief. Petron submitted its appellant's brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. Petron filed its appellant's reply brief on February 11, 2014. As of December 31, 2014, the appeal remained pending.

As regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 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. Acting on a motion for reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Parent Company, on March 10, 2015, the Supreme Court denied Shell's motion with finality and 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 January 5, 2015, the Parent Company filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision of the Supreme Court declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan and requiring the Parent Company, Shell and Chevron to submit to the RTC of Manila within 45 days from receipt of the November 25 Decision a comprehensive plan and relocation schedule. The manifestation conveyed the understanding of the Parent Company that the submission of the comprehensive plan and relocation schedule as required by the Supreme Court is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance 8119. On January 12, 2015, Shell filed a motion for reconsideration thereby preventing the November 25 Decision from becoming final.

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.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against the Parent Company. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former President and Chairman of the Parent Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

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 for both cases amount to P292. Both cases were pending as of December 31, 2014.

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.



**R.G. Manabat & Co.**  
The KPMG Center, 9/F  
6787 Ayala Avenue  
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet [www.kpmg.com.ph](http://www.kpmg.com.ph)  
E-Mail [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

Branches: Subic · Cebu · Bacolod · Iloilo

## **REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION**

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Petron Corporation (the "Company") and Subsidiaries, as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014, included in this Form 17-A, and have issued our report thereon dated March 17, 2015.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Reconciliation of Retained Earnings Available for Dividends Declaration
- Map of Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

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

**ADOR C. MEJIA**

Partner

CPA License No. 0029620

SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

Issued May 9, 2013; valid until May 8, 2016

PTR No. 4748117MC

Issued January 5, 2015 at Makati City

March 17, 2015  
Makati City, Metro Manila

**PETRON CORPORATION AND SUBSIDIARIES**  
**INDEX TO SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2014**

**Statement of Management's Responsibility for the Consolidated Financial Statements**

**Independent Auditor's Report on the SEC Supplementary Schedules**  
**Filed Separately from the Basic Consolidated Financial Statements**

**Supplementary Schedules to Consolidated Financial Statements**

| Supplementary Schedules of Annex 68 - E                                                                                                      | <u>Page No.</u>   |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| A. Financial Assets                                                                                                                          | NA <sup>(a)</sup> |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders                                       | NA <sup>(b)</sup> |
| C. Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements                 | 1 - 2             |
| D. Goodwill and Other Intangible Assets                                                                                                      | 3                 |
| E. Long-term Debt                                                                                                                            | 4                 |
| F. Indebtedness to Related Parties                                                                                                           | NA <sup>(c)</sup> |
| G. Guarantees of Securities of Other Issuers                                                                                                 | NA                |
| H. Capital Stock                                                                                                                             | 5                 |
| Map of the Conglomerate within which the Group belongs                                                                                       | 6                 |
| Tabular Schedule of Philippine Financial Reporting Standards                                                                                 | 7                 |
| <sup>(a)</sup> Balance of Available for Sale Securities and Fair Value Through Profit or Loss is less than 5% of total current assets.       |                   |
| <sup>(b)</sup> Balance of account is less than 1% of the total assets of the Company and no individually significant advances over P100,000. |                   |
| <sup>(c)</sup> Balance of account is less than 5% of total assets of the Company                                                             |                   |

**Supplementary Schedule to Parent Financial Statements**

|                                                                                         |   |
|-----------------------------------------------------------------------------------------|---|
| Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration | 8 |
|-----------------------------------------------------------------------------------------|---|

PETRON CORPORATION AND SUBSIDIARIES  
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED  
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS  
DECEMBER 31, 2014  
(Amounts in Millions)

| NAME OF RELATED PARTY | BEGINNING<br>BALANCE | ADDITIONS/<br>CTA/RECLASS/<br>OTHERS | AMTS COLLECTED/<br>CREDIT MEMO | AMOUNTS<br>WRITTEN OFF | TOTAL           | CURRENT         | NONCURRENT | ENDING<br>BALANCE |
|-----------------------|----------------------|--------------------------------------|--------------------------------|------------------------|-----------------|-----------------|------------|-------------------|
| Petron Corporation    | P 6,117              | P 17,729                             | P (14,883)                     | - P                    | P 8,963         | P 8,963         | - P        | 8,963             |
| PMC                   | 28                   | 147                                  | (174)                          | -                      | 1               | 1               | -          | 1                 |
| PFC                   | 4                    | 132                                  | (135)                          | -                      | 1               | 1               | -          | 1                 |
| PSTPL                 | 21,676               | 235,032                              | (243,109)                      | -                      | 13,599          | 13,599          | -          | 13,599            |
| Petrogen              | 66                   | 495                                  | (511)                          | -                      | 50              | 50              | -          | 50                |
| Ovincor               | 11                   | 55                                   | (52)                           | -                      | 14              | 14              | -          | 14                |
| NVRC and Subsidiaries | 24                   | 93                                   | (102)                          | -                      | 15              | 15              | -          | 15                |
| PAHL                  | 69                   | 10                                   | -                              | -                      | 79              | 79              | -          | 79                |
| <b>TOTAL</b>          | <b>P 27,995</b>      | <b>P 253,693</b>                     | <b>P (258,966)</b>             | <b>- P</b>             | <b>P 22,722</b> | <b>P 22,722</b> | <b>- P</b> | <b>22,722</b>     |

PETRON CORPORATION AND SUBSIDIARIES  
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED  
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS  
DECEMBER 31, 2014  
(Amounts in Millions)

| NAME OF RELATED PARTY |          | BEGINNING<br>BALANCE |          | ADDITIONS/<br>CTA/RECLASS/<br>OTHERS |          | AMTS PAID/<br>DEBIT MEMO |          | AMOUNTS<br>WRITTEN OFF |          | TOTAL         |          | CURRENT       |          | NONCURRENT |          | ENDING<br>BALANCE |
|-----------------------|----------|----------------------|----------|--------------------------------------|----------|--------------------------|----------|------------------------|----------|---------------|----------|---------------|----------|------------|----------|-------------------|
| Petron Corporation    | P        | 21,733               | P        | 235,647                              | P        | (243,737)                | P        | -                      | P        | 13,643        | P        | 13,643        | P        | -          | P        | 13,643            |
| PMC                   |          | 140                  |          | 1,329                                |          | (1,371)                  |          | -                      |          | 98            |          | 98            |          | -          |          | 98                |
| PFC                   |          | 50                   |          | 484                                  |          | (496)                    |          | -                      |          | 38            |          | 38            |          | -          |          | 38                |
| PSTPL                 |          | 735                  |          | 14,377                               |          | (10,781)                 |          | -                      |          | 4,331         |          | 4,331         |          | -          |          | 4,331             |
| Petrogen              |          | 201                  |          | 74                                   |          | (259)                    |          | -                      |          | 16            |          | 16            |          | -          |          | 16                |
| Ovincor               |          | 80                   |          | 62                                   |          | (111)                    |          | -                      |          | 31            |          | 31            |          | -          |          | 31                |
| NVRC and Subsidiaries |          | 3,611                |          | 169                                  |          | (8)                      |          | -                      |          | 3,772         |          | 3,772         |          | -          |          | 3,772             |
| Petron Malaysia       |          | 352                  |          | 185                                  |          | (268)                    |          | -                      |          | 269           |          | 269           |          | -          |          | 269               |
| PAHL                  |          | 1,299                |          | 1,160                                |          | (1,935)                  |          | -                      |          | 524           |          | 524           |          | -          |          | 524               |
| <b>TOTAL</b>          | <b>P</b> | <b>28,201</b>        | <b>P</b> | <b>253,487</b>                       | <b>P</b> | <b>(258,966)</b>         | <b>P</b> | <b>-</b>               | <b>P</b> | <b>22,722</b> | <b>P</b> | <b>22,722</b> | <b>P</b> | <b>-</b>   | <b>P</b> | <b>22,722</b>     |

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - GOODWILL AND OTHER INTANGIBLE ASSETS**  
**DECEMBER 31, 2014**  
*(Amounts in Millions)*

| Description                    |   | Beginning<br>balance | Additions at<br>cost | Charged to cost<br>and expenses | Charged to<br>other accounts | Other changes<br>additions<br>(deductions) | Ending<br>balance |
|--------------------------------|---|----------------------|----------------------|---------------------------------|------------------------------|--------------------------------------------|-------------------|
| <b>Goodwill</b>                |   | 9,386                | -                    | -                               | -                            | (465)                                      | 8,921             |
| <b>Franchise Fee:</b>          |   |                      |                      |                                 |                              |                                            |                   |
| Cost                           | P | 18 P                 | - P                  | - P                             | - P                          | (1) P                                      | 17                |
| Less amortization for the year |   | 12                   | -                    | 1                               | -                            | (1)                                        | 12                |
|                                | P | 6 P                  | - P                  | (1) P                           | - P                          | - P                                        | 5                 |
| <b>Computer Software:</b>      |   |                      |                      |                                 |                              |                                            |                   |
| Cost                           | P | 627 P                | - P                  | - P                             | - P                          | (27) P                                     | 600               |
| Less amortization for the year |   | 311                  | -                    | 89                              | -                            | (16)                                       | 384               |
|                                | P | 316 P                | - P                  | (89) P                          | - P                          | (11) P                                     | 216               |

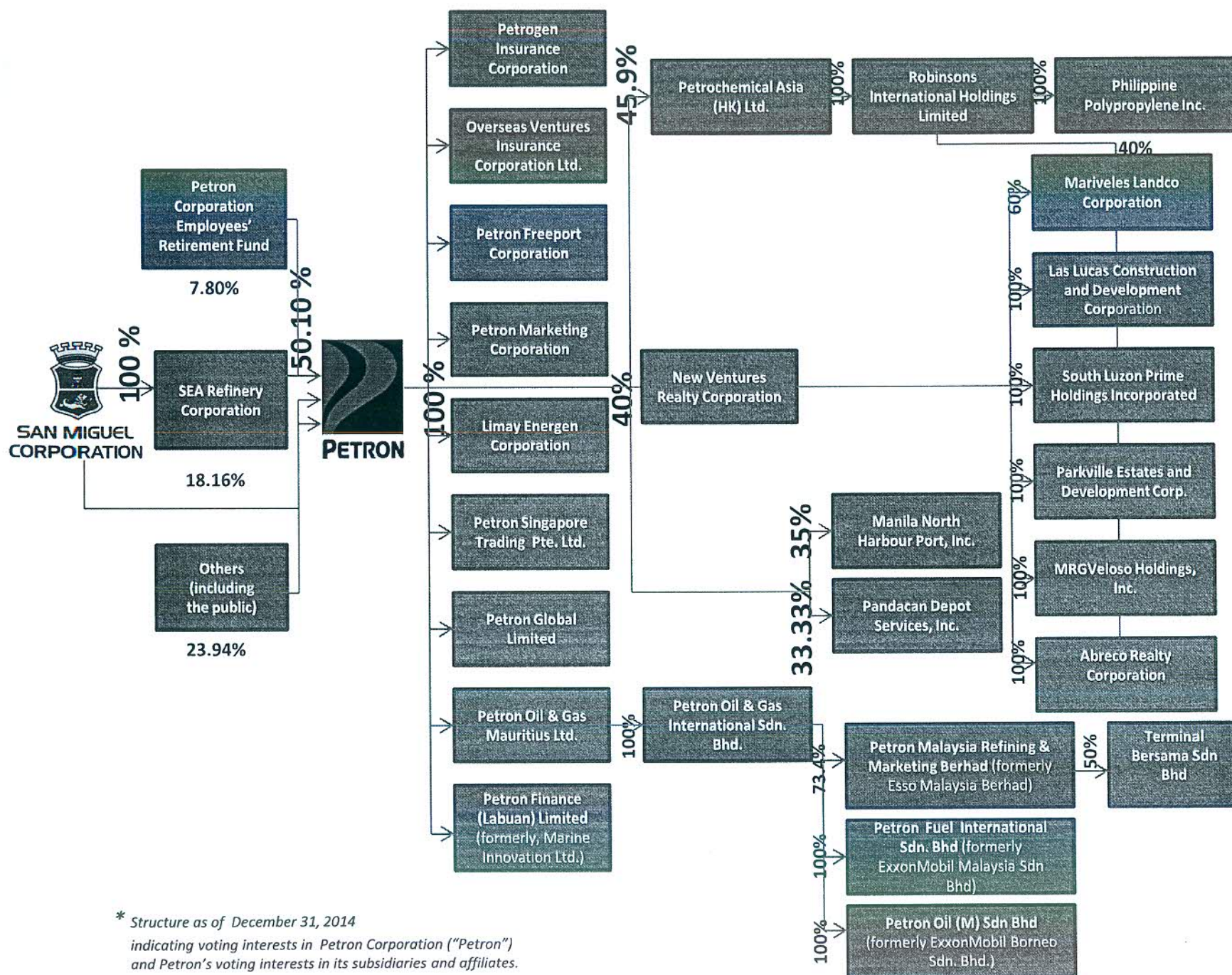
**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2014**  
*(Amounts in Millions)*

| TITLE OF ISSUE                        | AGENT / LENDER                              | Outstanding<br>Balance | Amount<br>Shown as<br>Current | Current<br>and Long-term | INTEREST RATES           | Number of<br>Periodic<br>Installments | Final<br>Maturity |
|---------------------------------------|---------------------------------------------|------------------------|-------------------------------|--------------------------|--------------------------|---------------------------------------|-------------------|
| <b>Unsecured term notes:</b>          |                                             |                        |                               |                          |                          |                                       |                   |
| <u>Peso denominated:</u>              |                                             |                        |                               |                          |                          |                                       |                   |
| Fixed                                 | Rizal Commercial Banking Corporation        | P 3,492                | P 32                          | P 3,466                  | 6.3212% and 7.1827%      | Amortized                             | October 2021      |
| Fixed                                 | Deutsche Bank AG, Hongkong Branch           | 20,000                 | -                             | 19,891                   | 7.00%                    | Bullet                                | November 2017     |
|                                       |                                             | <u>23,492</u>          | <u>32</u>                     | <u>23,357</u>            |                          |                                       |                   |
| <u>Foreign currency - denominated</u> |                                             |                        |                               |                          |                          |                                       |                   |
| Floating                              | Standard Chartered Bank (Hong Kong) Limited | 9,200                  | 2,965                         | 9,052                    | LIBOR plus agreed margin | Amortized                             | November 2016     |
| Floating                              | Standard Chartered Bank (Hong Kong) Limited | 15,428                 | 2,863                         | 15,094                   | LIBOR plus agreed margin | Amortized                             | November 2017     |
| Floating                              | Standard Chartered Bank (Hong Kong) Limited | 21,242                 | -                             | 20,821                   | LIBOR plus agreed margin | Amortized                             | May 2019          |
| Floating                              | CIMB Bank                                   | 1,920                  | -                             | 1,903                    | COF + 1.50%              | Amortized                             | March 2019        |
| Floating                              | Malayan Banking Berhad                      | 1,920                  | -                             | 1,902                    | COF + 1.50%              | Amortized                             | July 2019         |
|                                       |                                             | <u>49,710</u>          | <u>5,828</u>                  | <u>48,772</u>            |                          |                                       |                   |
| <b>Total Long-term Debt</b>           |                                             | P <u>73,202</u>        | P <u>5,860</u>                | P <u>72,129</u>          |                          |                                       |                   |

**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2014**

| Title of Issue      | Number of Shares Authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors and executive officers | Others        |
|---------------------|-----------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------|----------------------------------|---------------|
| Preferred stock     | 624,895,503                 | 100,000,000                                                                          | Not applicable                                                               | -                                        | 405,500                          | 99,594,500    |
| Common stock        | 9,375,104,497               | 9,375,104,497                                                                        | Not applicable                                                               | 7,130,912,221                            | 269,183                          | 2,243,923,093 |
| Series 2A Preferred | 7,122,320                   | 7,122,320                                                                            | Not applicable                                                               | -                                        | 38,400                           | 7,083,920     |
| Series 2B Preferred | 2,877,680                   | 2,877,680                                                                            | Not applicable                                                               | -                                        | -                                | 2,877,680     |

# PETRON GROUP STRUCTURE



\* Structure as of December 31, 2014  
 indicating voting interests in Petron Corporation ("Petron")  
 and Petron's voting interests in its subsidiaries and affiliates.

## PETRON CORPORATION AND SUBSIDIARIES

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014                                                         |                                                                                                                                                  | Adopted | Not Adopted | Not Applicable |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |                                                                                                                                                  | ✓       |             |                |
| <b>PFRSs Practice Statement Management Commentary</b>                                                                                                     |                                                                                                                                                  |         | ✓           |                |
| <b>Philippine Financial Reporting Standards</b>                                                                                                           |                                                                                                                                                  |         |             |                |
| <b>PFRS 1<br/>(Revised)</b>                                                                                                                               | First-time Adoption of Philippine Financial Reporting Standards                                                                                  |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate                                   |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 1: Additional Exemptions for First-time Adopters                                                                              |         |             | ✓              |
|                                                                                                                                                           | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters                                               |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                                                    |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 1: Government Loans                                                                                                           |         |             | ✓              |
|                                                                                                                                                           | Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1 |         |             | ✓              |
|                                                                                                                                                           | Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption                                                                         |         | ✓           |                |
|                                                                                                                                                           | Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply                                                 |         | ✓           |                |
| <b>PFRS 2</b>                                                                                                                                             | Share-based Payment                                                                                                                              |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 2: Vesting Conditions and Cancellations                                                                                       |         |             | ✓              |
|                                                                                                                                                           | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                                                        |         |             | ✓              |
|                                                                                                                                                           | Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'                                                                   |         |             | ✓              |
| <b>PFRS 3<br/>(Revised)</b>                                                                                                                               | Business Combinations                                                                                                                            | ✓       |             |                |
|                                                                                                                                                           | Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration                                       |         | ✓           |                |
|                                                                                                                                                           | Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements                                          |         | ✓           |                |
| <b>PFRS 4</b>                                                                                                                                             | Insurance Contracts                                                                                                                              | ✓       |             |                |
|                                                                                                                                                           | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                                                   | ✓       |             |                |
| <b>PFRS 5</b>                                                                                                                                             | Non-current Assets Held for Sale and Discontinued Operations                                                                                     | ✓       |             |                |
|                                                                                                                                                           | Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal                                                                   |         | ✓           |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                                                                       | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>PFRS 6</b>                                                                                     | Exploration for and Evaluation of Mineral Resources                                                                                                                   |         |             | ✓              |
| <b>PFRS 7</b>                                                                                     | Financial Instruments: Disclosures                                                                                                                                    | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 7: Transition                                                                                                                                      | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                                                 | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                                                 | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                                                                                               | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                                                                                     | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities                                                                             | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                                                                                   | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts                                                                      |         | ✓           |                |
|                                                                                                   | Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements                                                      |         | ✓           |                |
| <b>PFRS 8</b>                                                                                     | Operating Segments                                                                                                                                                    | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments                                                                  |         | ✓           |                |
| <b>PFRS 9</b>                                                                                     | Financial Instruments                                                                                                                                                 |         | ✓           |                |
|                                                                                                   | Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39                                                                                                          |         | ✓           |                |
| <b>PFRS 9 (2014)</b>                                                                              | Financial Instruments                                                                                                                                                 |         | ✓           |                |
| <b>PFRS 10</b>                                                                                    | Consolidated Financial Statements                                                                                                                                     | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture                                               |         | ✓           |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception                                                                  |         | ✓           |                |
| <b>PFRS 11</b>                                                                                    | Joint Arrangements                                                                                                                                                    | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations                                                                                   |         | ✓           |                |
| <b>PFRS 12</b>                                                                                    | Disclosure of Interests in Other Entities                                                                                                                             | ✓       |             |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |         | ✓           |                |
|                                                                                                   | Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities                                                                                                |         | ✓           |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                                                         | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| PFRS 13                                                                                           | Fair Value Measurement                                                                                                                                  | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2010 – 2012 Cycle: Measurement of short-term receivables and payables                                                      |         | ✓           |                |
|                                                                                                   | Annual Improvements to PFRSs 2011 – 2013 Cycle: Scope of portfolio exception                                                                            |         | ✓           |                |
| PFRS 14                                                                                           | Regulatory Deferral Accounts                                                                                                                            |         |             | ✓              |
| Philippine Accounting Standards                                                                   |                                                                                                                                                         |         |             |                |
| PAS 1<br>(Revised)                                                                                | Presentation of Financial Statements                                                                                                                    | ✓       |             |                |
|                                                                                                   | Amendment to PAS 1: Capital Disclosures                                                                                                                 | ✓       |             |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation                                                   | ✓       |             |                |
|                                                                                                   | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                                                                                | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of Financial Statements – Comparative Information beyond Minimum Requirements              |         | ✓           |                |
|                                                                                                   | Annual Improvements to PFRSs 2009 – 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes                           |         | ✓           |                |
|                                                                                                   | Amendments to PAS 1: Disclosure Initiative                                                                                                              |         | ✓           |                |
| PAS 2                                                                                             | Inventories                                                                                                                                             | ✓       |             |                |
| PAS 7                                                                                             | Statement of Cash Flows                                                                                                                                 | ✓       |             |                |
| PAS 8                                                                                             | Accounting Policies, Changes in Accounting Estimates and Errors                                                                                         | ✓       |             |                |
| PAS 10                                                                                            | Events after the Reporting Period                                                                                                                       | ✓       |             |                |
| PAS 11                                                                                            | Construction Contracts                                                                                                                                  |         |             | ✓              |
| PAS 12                                                                                            | Income Taxes                                                                                                                                            | ✓       |             |                |
|                                                                                                   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                                                                       | ✓       |             |                |
| PAS 16                                                                                            | Property, Plant and Equipment                                                                                                                           | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2009 – 2011 Cycle: Property, Plant and Equipment – Classification of Servicing Equipment                                   |         | ✓           |                |
|                                                                                                   | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization                                                   |         | ✓           |                |
|                                                                                                   | Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants                                                                                             |         |             | ✓              |
|                                                                                                   | Annual Improvements to PFRSs 2010 – 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38) |         |             | ✓              |
| PAS 17                                                                                            | Leases                                                                                                                                                  | ✓       |             |                |
| PAS 18                                                                                            | Revenue                                                                                                                                                 | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                                  | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| PAS 19<br>(Amended)                                                                               | Employee Benefits                                                                                                                | ✓       |             |                |
|                                                                                                   | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions                                                              | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone |         | ✓           |                |
| PAS 20                                                                                            | Accounting for Government Grants and Disclosure of Government Assistance                                                         |         |             | ✓              |
| PAS 21                                                                                            | The Effects of Changes in Foreign Exchange Rates                                                                                 | ✓       |             |                |
|                                                                                                   | Amendment: Net Investment in a Foreign Operation                                                                                 | ✓       |             |                |
| PAS 23<br>(Revised)                                                                               | Borrowing Costs                                                                                                                  | ✓       |             |                |
| PAS 24<br>(Revised)                                                                               | Related Party Disclosures                                                                                                        | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'                                                    |         | ✓           |                |
| PAS 26                                                                                            | Accounting and Reporting by Retirement Benefit Plans                                                                             | ✓       |             |                |
| PAS 27<br>(Amended)                                                                               | Separate Financial Statements                                                                                                    | ✓       |             |                |
|                                                                                                   | Amendments to PAS 27: Equity Method in Separate Financial Statements                                                             |         | ✓           |                |
| PAS 28<br>(Amended)                                                                               | Investments in Associates and Joint Ventures                                                                                     | ✓       |             |                |
| PAS 29                                                                                            | Financial Reporting in Hyperinflationary Economies                                                                               |         |             | ✓              |
| PAS 32                                                                                            | Financial Instruments: Disclosure and Presentation                                                                               | ✓       |             |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation                            | ✓       |             |                |
|                                                                                                   | Amendment to PAS 32: Classification of Rights Issues                                                                             | ✓       |             |                |
|                                                                                                   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                                                      | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions    |         | ✓           |                |
| PAS 33                                                                                            | Earnings per Share                                                                                                               | ✓       |             |                |
| PAS 34                                                                                            | Interim Financial Reporting                                                                                                      | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities                     |         | ✓           |                |
|                                                                                                   | Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"            |         | ✓           |                |
| PAS 36                                                                                            | Impairment of Assets                                                                                                             | ✓       |             |                |
|                                                                                                   | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                                                    | ✓       |             |                |
| PAS 37                                                                                            | Provisions, Contingent Liabilities and Contingent Assets                                                                         | ✓       |             |                |
| PAS 38                                                                                            | Intangible Assets                                                                                                                | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                         | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| PAS 39                                                                                            | Financial Instruments: Recognition and Measurement                                                      | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities  | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                    | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39: The Fair Value Option                                                             | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                          | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                   | ✓       |             |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition   | ✓       |             |                |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        | ✓       |             |                |
|                                                                                                   | Amendment to PAS 39: Eligible Hedged Items                                                              | ✓       |             |                |
|                                                                                                   | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                       | ✓       |             |                |
| PAS 40                                                                                            | Investment Property                                                                                     | ✓       |             |                |
|                                                                                                   | Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40                 |         | ✓           |                |
| PAS 41                                                                                            | Agriculture                                                                                             |         |             | ✓              |
| Philippine Interpretations                                                                        |                                                                                                         |         |             |                |
| IFRIC 1                                                                                           | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                | ✓       |             |                |
| IFRIC 2                                                                                           | Members' Share in Co-operative Entities and Similar Instruments                                         |         |             | ✓              |
| IFRIC 4                                                                                           | Determining Whether an Arrangement Contains a Lease                                                     | ✓       |             |                |
| IFRIC 5                                                                                           | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |         |             | ✓              |
| IFRIC 6                                                                                           | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |         |             | ✓              |
| IFRIC 7                                                                                           | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |         |             | ✓              |
| IFRIC 9                                                                                           | Reassessment of Embedded Derivatives                                                                    | ✓       |             |                |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                        |         | ✓           |                |
| IFRIC 10                                                                                          | Interim Financial Reporting and Impairment                                                              | ✓       |             |                |
| IFRIC 12                                                                                          | Service Concession Arrangements                                                                         |         |             | ✓              |
| IFRIC 13                                                                                          | Customer Loyalty Programmes                                                                             | ✓       |             |                |
| IFRIC 14                                                                                          | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction       | ✓       |             |                |
|                                                                                                   | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement        | ✓       |             |                |
| IFRIC 16                                                                                          | Hedges of a Net Investment in a Foreign Operation                                                       |         |             | ✓              |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| IFRIC 17                                                                                          | Distributions of Non-cash Assets to Owners                                                                     | ✓       |             |                |
| IFRIC 18                                                                                          | Transfers of Assets from Customers                                                                             |         |             | ✓              |
| IFRIC 19                                                                                          | Extinguishing Financial Liabilities with Equity Instruments                                                    | ✓       |             |                |
| IFRIC 20                                                                                          | Stripping Costs in the Production Phase of a Surface Mine                                                      |         |             | ✓              |
| IFRIC 21                                                                                          | Levies                                                                                                         |         |             | ✓              |
| SIC-7                                                                                             | Introduction of the Euro                                                                                       |         |             | ✓              |
| SIC-10                                                                                            | Government Assistance - No Specific Relation to Operating Activities                                           |         |             | ✓              |
| SIC-15                                                                                            | Operating Leases - Incentives                                                                                  | ✓       |             |                |
| SIC-25                                                                                            | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                                      |         |             | ✓              |
| SIC-27                                                                                            | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                                   | ✓       |             |                |
| SIC-29                                                                                            | Service Concession Arrangements: Disclosures.                                                                  |         |             | ✓              |
| SIC-31                                                                                            | Revenue - Barter Transactions Involving Advertising Services                                                   |         |             | ✓              |
| SIC-32                                                                                            | Intangible Assets - Web Site Costs                                                                             |         |             | ✓              |
| <b>Philippine Interpretations Committee Questions and Answers</b>                                 |                                                                                                                |         |             |                |
| PIC Q&A 2006-01                                                                                   | PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts |         |             | ✓              |
| PIC Q&A 2006-02                                                                                   | PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements       | ✓       |             |                |
| PIC Q&A 2007-01- Revised                                                                          | PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full         |         |             | ✓              |
| PIC Q&A 2007-03                                                                                   | PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)                                        |         |             | ✓              |
| PIC Q&A 2007-04                                                                                   | PAS 101.7 - Application of criteria for a qualifying NPAE                                                      |         |             | ✓              |
| PIC Q&A 2008-01- Revised                                                                          | PAS 19.78 - Rate used in discounting post-employment benefit obligations                                       | ✓       |             |                |
| PIC Q&A 2008-02                                                                                   | PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20             |         |             | ✓              |
| PIC Q&A 2009-01                                                                                   | Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern                  |         |             | ✓              |
| PIC Q&A 2009-02                                                                                   | PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines           |         |             | ✓              |
| PIC Q&A 2010-01                                                                                   | PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines           | ✓       |             |                |
| PIC Q&A 2010-02                                                                                   | PAS 1R.16 - Basis of preparation of financial statements                                                       | ✓       |             |                |
| PIC Q&A 2010-03                                                                                   | PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term             | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                                                              | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                                                                   | loan                                                                                                                                                         |         |             |                |
| PIC Q&A 2011-01                                                                                   | PAS 1.10(f) - Requirements for a Third Statement of Financial Position                                                                                       | ✓       |             |                |
| PIC Q&A 2011-02                                                                                   | PFRS 3.2 - Common Control Business Combinations                                                                                                              |         |             | ✓              |
| PIC Q&A 2011-03                                                                                   | Accounting for Inter-company Loans                                                                                                                           | ✓       |             |                |
| PIC Q&A 2011-04                                                                                   | PAS 32.37-38 - Costs of Public Offering of Shares                                                                                                            | ✓       |             |                |
| PIC Q&A 2011-05                                                                                   | PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost                                                                                                      | ✓       |             |                |
| PIC Q&A 2011-06                                                                                   | PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?    | ✓       |             |                |
| PIC Q&A 2012-01                                                                                   | PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements    |         |             | ✓              |
| PIC Q&A 2012-02                                                                                   | Cost of a New Building Constructed on the Site of a Previous Building                                                                                        |         |             | ✓              |
| PIC Q&A 2013-01                                                                                   | Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs                                                                     |         |             | ✓              |
| PIC Q&A 2013-03                                                                                   | PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law | ✓       |             |                |

**PETRON CORPORATION**  
**SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**

**December 31, 2014**  
(Amounts in Thousand Pesos)

*(Figures base on audited  
financial statements)*

|                                                                                                                                       |                    |                    |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Unappropriated Retained Earnings, as adjusted to<br>available for dividend distribution, beginning                                    |                    | <b>P9,039,519</b>  |
| <b>Add: Net income actually earned/realized during the<br/>period</b>                                                                 |                    |                    |
| Net income during the period closed to Retained Earnings                                                                              | P2,708,133         |                    |
| Less: Non-actual/ unrealized income, net of tax:                                                                                      |                    |                    |
| Unrealized foreign exchange gain - net(except<br>those attributable to cash and cash equivalents)                                     | 171,462            |                    |
| Fair value gains arising from mark-to-market<br>measurement                                                                           | 850,453            |                    |
| Equity in net income of associates/joint venture                                                                                      | -                  |                    |
| Retirement benefits income                                                                                                            | 7,996              |                    |
| Other unrealized gains or adjustments to the<br>retained earnings as a result of certain<br>transactions accounted for under the PFRS | 127,059            |                    |
| Sub-total                                                                                                                             | 1,551,163          |                    |
| Add: Non-actual losses, net of tax:                                                                                                   |                    |                    |
| Fair value adjustment on FVPL financial assets                                                                                        | -                  |                    |
| Depreciation on revaluation increment                                                                                                 | -                  |                    |
| Adjustment due to deviation from PFRS/GAAP -<br>loss                                                                                  | -                  |                    |
| Loss on fair value adjustment of investment<br>property                                                                               | -                  |                    |
| <b>Net income actually earned during the period</b>                                                                                   | <b>1,551,163</b>   | <b>1,551,163</b>   |
| Add (Less):                                                                                                                           |                    |                    |
| Dividend declarations during the period                                                                                               | (1,582,385)        |                    |
| Distributions paid                                                                                                                    | (3,580,272)        |                    |
| Appropriations of retained earnings during the year                                                                                   | -                  |                    |
| Reversal of appropriations                                                                                                            | -                  |                    |
| Effects of prior period adjustments                                                                                                   | -                  |                    |
| Treasury Shares                                                                                                                       | -                  |                    |
|                                                                                                                                       | <b>(5,162,657)</b> | <b>(5,162,657)</b> |
| <b>TOTAL RETAINED EARNINGS, END<br/>AVAILABLE FOR DIVIDEND</b>                                                                        |                    | <b>P 5,428,025</b> |