SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box:
   Preliminary Information Statement
   X Definitive Information Statement

2. Name of Registrant as specified in its charter **PETRON CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization **PHILIPPINES**

4. SEC Identification Number **31171**

5. BIR Tax Identification Code **000-168-801**

6. Address of principal office

   SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

   Postal Code **1550**

7. Registrant's telephone number, including area code **(632) 886-3888**

8. Date, time and place of the meeting of security holders

Date	-	**May 19, 2015, Tuesday**
Time	-	**2:00 p.m.**
Place	-	**Valle Verde Country Club Capt. Henry P. Javier St., Bgy. Oranbo Pasig City, Metro Manila**

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   April 16, 2015

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares Outstanding
Common Stock	**9,375,104,497 shares**
Series 2A Preferred Shares	**7,122,320 shares**
Series 2B Preferred Shares	**2,877,680 shares**
Debt outstanding (as of December 31, 2014)	**₱ 277,632 million**

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

Yes X No _______

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange	**Common Shares** **Series 2A Preferred Shares** **Series 2B Preferred Shares**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 19, 2015

The annual meeting of the stockholders of Petron Corporation (the "Company") will be held on May 19, 2015, Tuesday, at 2:00 p.m. at the Valle Verde Country Club, Pasig City.

The agenda of the meeting are as follows:

1) Call to Order
2) Report on Attendance and Quorum
3) Review and Approval of the Minutes of the Previous Annual Stockholders' Meeting
4) Management Report and Submission to the Stockholders of the Financial Statements for the Year 2014
5) Ratification of All Acts of the Board of Directors and Management Since the Last Stockholders' Meeting in the Year 2014
6) Ratification by the Stockholders of the Amendment of the Company's Articles of Incorporation (Provision of a Re-Issuability Feature of the Company's Preferred Shares)
7) Appointment of An Independent External Auditor
8) Election of the Board of Directors for the Ensuing Term
9) Other Matters
10) Adjournment

Please refer to Appendix 1 of this notice for a brief discussion of and the rationale for the above agenda items. The dividend policy of the Company is discussed in the Definitive Information Statement (SEC Form 20-IS) issued by the Company for this meeting.

The minutes of the 2014 annual stockholders' meeting will be available upon registration on the day of the meeting.

The deadline for submission of proxies is on May 5, 2015. For your convenience, a sample of a proxy is attached to the Definitive Information Statement. For a corporation, its proxy must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on May 14, 2015 at 2:00 p.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

Please present some form of identification, such as passport, driver's license, or company I.D., in registering your attendance. Registration will start at 11:30 a.m. and the registration booths will be promptly closed at 2:00 p.m.

Mandaluyong, March 17, 2015.

JOEL ANGELO C. CRUZ
VP - General Counsel &
Corporate Secretary

Appendix 1

RATIONALE AND BRIEF DISCUSSION OF THE AGENDA OF THE 2015 ANNUAL STOCKHOLDERS' MEETING (THE "ANNUAL STOCKHOLDERS' MEETING")

1. Call to Order

The Chairman of the Board of Directors (or the Chairman of the meeting, as the case may be) (the "Chairman") will call the meeting to order.

2. Report on Attendance and Quorum

Notice and Quorum

The Corporate Secretary (or the Secretary of the meeting, as the case may be) (the "Secretary") will certify the date when the written notice of the Annual Stockholders' Meeting was sent to the stockholders as of record date of April 1, 2015 and the date of publication of the notice in newspapers of general circulation.

The Secretary will likewise certify the presence of a quorum. Under the by-laws of the Company (the "Company's By-laws"), the holders of a majority of the issued and outstanding capital stock of the Company entitled to vote shall, if present in person or by proxy, constitute a quorum for the transaction of business.

Voting and Voting Procedure

- Each common share is entitled to one vote. Preferred shareholders have no voting rights except under instances provided under The Corporation Code of the Philippines, such as the approval of the proposed amendment to the Article Seventh of the Company's Articles of Incorporation (the "Company's Articles").

- A simple majority vote of the stockholders holding common shares, where a quorum is present, will be needed for the approval of the minutes of the previous stockholders' meeting, the ratification of all acts of the Board of Directors and Management since the last annual stockholder's meeting in 2014, and the appointment of the independent external auditor of the Company for 2015.

- The preferred shareholders are entitled to vote on the proposed ratification of the approval of the Board of Directors of the amendment of the Article Seventh of the Company's Articles adding a re-issuability feature of the preferred shares. The vote of at least two-thirds (2/3) of the outstanding capital stock, covering both common and preferred shares, will be necessary to ratify such approval.

- In the election of directors, the 15 nominees who get the highest votes shall be deemed duly elected as directors. Under the express provisions of the Company's By-Laws cumulative voting is allowed in the election of directors. Thus, a stockholder may distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his his/her shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares he/she has, or he/she may distribute them on the same principle among as many candidates as he/she shall see fit;

provided, that the total number of votes cast by him/her shall not exceed the number of shares owned by him/her as shown in the books of the Company multiplied by the whole number of directors to be elected.

- As provided in the Company's By-Laws, if at any meeting of the stockholders a vote by ballot shall be taken, a voting committee shall be created to adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the voting committee, who need not be stockholders, is required to subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability.

  The external auditor of the Company will be requested to supervise the voting proceedings.

Question and Answer

The Secretary will advise the stockholders of the holding of an open forum after the Management's report and provide the guidelines in the conduct of the open forum.

3. Review and Approval of the Minutes of the Previous Annual Stockholders' Meeting

Copies of the minutes of the annual stockholders' meeting held on May 20, 2014 will be made available to the stockholders at the registration area of the venue of the Annual Stockholders' Meeting.

The stockholders will be requested to approve the draft of the minutes of the 2014 annual stockholders' meeting.

4. Management Report and Submission to the Stockholders of the Financial Statements for the Year 2014

The Management of the Company will deliver the report on the performance of the Company for 2014.

The stockholders will be given the opportunity to ask questions or raise concerns.

The stockholders will then be requested to approve the report and the audited financial statements of the Company for 2014.

Duly authorized representatives of R. G. Manabat & Co./KPMG ("KPMG"), the external auditor for 2014, will be present at the Annual Stockholders' Meeting to respond to appropriate questions concerning the 2014 financial statements of the Company.

5. Ratification of All Acts of the Board of Directors and Management Since the Last Stockholders' Meeting in the Year 2014

The acts and resolutions of the Board of Directors, including those of the Executive Committee, are reflected in the minutes of meetings, and the material of which are disclosed to the Securities and Exchange Commission ("SEC") and the Philippine Stock Exchange ("PSE") and posted on the company website, www.petron.com. A list of such acts and resolutions are also set out in the Definitive Information Statement for the Annual Stockholders' Meeting.

The acts of Management were taken in furtherance of the conduct of the business of the Company and in the implementation of the matters approved by the Board of Directors or the Executive Committee.

The stockholders will be requested to ratify all acts of the Board of Directors and Management since the last stockholders' meeting in 2014.

6. Ratification by the Stockholders of the Amendment of the Company's Articles of Incorporation (Provision of a Re-Issuability Feature of the Company's Preferred Shares)

At the regular meeting of the Board of Directors held on March 17, 2015, the Board of Directors approved the proposal to amend Article Seventh of the Company's Articles to expressly provide for the feature of the re-issuability of the preferred shares of the Company and the presentation of such proposal for the confirmation and ratification by the stockholders at the Annual Stockholders' Meeting.

The proposed amendment will allow the Company to have preferred shares to re-issue from treasury in addition to its unissued preferred shares and thus dispense the need for the amendment of the Company's Articles for future preferred share issuances. The amendment will also align the Company's Articles with those of its parent company, San Miguel Corporation.

Article Seventh of the Company's Articles is proposed to be amended as follows:

> *"**SEVENTH**. - The capital stock of the Corporation is Ten Billion Pesos (₱10,000,000,000.00), Philippine currency, and said capital stock is divided into Nine Billion Three Hundred Seventy Five Million One Hundred Four Thousand Four Hundred Ninety Seven (9,375,104,497) common shares and Six Hundred Twenty Four Million Eight Hundred Ninety Five Thousand Five Hundred Three (624,895,503) preferred shares, all with a par value of One Peso (₱1.00), Philippine currency, each. (As amended on December 22, 1993, as further amended on March 6, 1995 and April 17, 1995 by the Board of Directors and Stockholders, respectively, and as further amended on October 21, 2009 by the Board of Directors and by the Stockholders thru written assent)*

The preferred shares shall be non-voting, non-convertible and shall have preference over common shares in case of liquidation or dissolution of the Corporation. Preferred shares may be issued from time to time in one or more series as may be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors), which shall likewise be authorized to establish and designate each particular series of preferred shares, to fix the number of shares to be included in each of such series, and to determine the dividend rate, issue price and other features as well as other terms and conditions for each such series of shares. Preferred shares may or may not be cumulative, participating or redeemable as may likewise be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors).

<u>Any and all preferred shares of the Corporation (whether unissued, issued, and outstanding, including all existing treasury shares) shall not be retired upon redemption but may be reissued under such terms and conditions and procedure as may be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors). Any preferred shares re-issued shall be given a new designation as a subsequent series.</u>

No stockholder of the Corporation shall, because of his/its ownership of stock, have pre-emptive right to purchase, subscribe for or take any part of any stock or of any other securities convertible into or carrying the options or warrants to purchase stock of the Corporation. Any part of such stock or other securities may at any time be issued, optioned for sale, or sold or disposed of by the Corporation pursuant to a resolution of its Board of Directors, to any person, whether or not such person is a stockholder of the Corporation and upon such terms and conditions as such Board may deem proper without first offering such stock or securities or any part thereof to existing or other stockholders."

7. Appointment of an Independent External Auditor

Pursuant to the Corporate Governance Manual of the Company and the Audit Committee Charter, the Audit Committee will recommend to the Board of Directors the appointment of an external auditor which will examine the accounts of the Company for 2015. The stockholders will be requested to ratify the appointment.

The external auditor of the Company is discussed in the Definitive Information Statement for the Annual Stockholders' Meeting.

8. **Election of the Board of Directors for the Ensuing Term**

At its meeting held on March 17, 2015, the Nomination Committee, as the standing committee of the Board of Directors constituted for the purpose of reviewing and evaluating the qualifications of persons nominated to become members of the Board of Directors (including the independent directors) and pursuant to the provisions of the Corporate Governance Manual of the Company and the Charter of the Nomination Committee, reviewed the candidates for director to ensure that they have all the qualifications and none of the disqualifications for nomination and election as members of the Board of Directors.

The 15 nominees will be submitted for election to the Board of Directors by the stockholders at the Annual Stockholders' Meeting. The profiles of the nominees are provided in the Definitive Information Statement for the Annual Stockholders' Meeting.

9. **Other Matters**

The Chairman will inquire whether there are other relevant matters and concerns to be discussed.

10. **Adjournment**

Upon determination that there are no other relevant matters to be discussed, the meeting will be adjourned on motion duly made and seconded.

SAMPLE PROXY FORM

The undersigned stockholder of PETRON CORPORATION (the "Company") hereby appoints ________________________ or, in his/her/its absence, the Chairman of the meeting, as attorney and proxy, to represent and vote all the shares registered in his/her/its name at the annual meeting of the stockholders of the Company scheduled on May 19, 2015, Tuesday, at 2:00 p.m. at the Valle Verde Country Club, Capt. Henry P. Javier St., Bgy. Oranbo, Pasig City, Metro Manila, Philippines, and any of its adjournment(s), as fully as the undersigned can do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below.

PROPOSAL	ACTION			
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION	FULL DISCRETION OF PROXY
1. Election of Directors				
The nominees are: • Eduardo M. Cojuangco, Jr. • Ramon S. Ang • Lubin N. Nepomuceno • Eric O. Recto • Estelito P. Mendoza • Jose P. De Jesus • Ron W. Haddock • Aurora T. Calderon • Mirzan Mahathir • Romela M. Bengzon • Virgilio S. Jacinto • Nelly Favis-Villafuerte • Reynaldo G. David (independent) • Artemio V. Panganiban (independent) • Margarito B. Teves (independent) **INSTRUCTIONS**: *To withhold authority to vote for any individual nominee(s), please mark "Exception" box and list the name(s) under*				
	FOR	AGAINST	ABSTAIN	
2. Amendment of the Articles of Incorporation of the Company to Add a Re-Issuability Feature of the Preferred Shares of the Company				
3. Approval of the Minutes of the 2014 Annual Stockholders' Meeting				
4. Approval of the Annual Report and the Audited Financial Statements of the Company for year ended December 31, 2014				
5. Ratification of all Acts of the Board of Directors and Management since the 2014 Annual Stockholders' Meeting				
6. Appointment of External Auditors of the Company				

Signed this ______________ at ______________________.

PRINTED NAME OF STOCKHOLDER SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE MAY 5, 2015. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY THE MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT EITHER IN AN INSTRUMENT IN WRITING DULY PRESENTED TO AND RECORDED WITH THE CORPORATE SECRETARY AT LEAST FIVE (5) DAYS PRIOR TO THE MEETING OR BY THE PERSONAL PRESENCE OF THE STOCKHOLDER AT THE MEETING. NOTARIZATION OF THIS PROXY IS NOT REQUIRED. FOR A CORPORATION, ITS PROXY MUST BE ACCOMPANIED BY ITS CORPORATE SECRETARY'S SWORN CERTIFICATION SETTING THE CORPORATE OFFICER'S AUTHORITY TO REPRESENT THE CORPORATION IN THE MEETING. VALIDATION OF PROXIES WILL BE ON MAY 14, 2015 AT 2:00 P.M. AT THE SMC STOCK TRANSFER SERVICE CORPORATION OFFICE, 2ND FLOOR, SMC HEAD OFFICE COMPLEX, 40 SAN MIGUEL AVENUE, MANDALUYONG CITY.

INFORMATION STATEMENT

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

However, if you cannot attend and you wish to send a representative/proxy, please send your proxy letter, a sample of which is attached to this Information Statement, to the Office of the Corporate Secretary of the Petron Corporation ("Petron" or the "Company") on or before May 6, 2015.

On the day of the annual stockholders' meeting, May 19, 2015, your representative should bring the Stockholder's Identification Slip, any valid proof of identification (*e.g.*, passport, driver's license, company I.D., or TIN card) and the proxy letter.

Date, Time and Place of Annual Meeting

The annual stockholders' meeting of Petron for 2015 has the following details (the "Annual Stockholders' Meeting"):

Date	-	May 19, 2015, Tuesday
Time	-	2:00 p.m.
Place	-	Valle Verde Country Club Capt. Henry P. Javier St., Bgy. Oranbo Pasig City, Metro Manila

The approximate date on which this Information Statement will be first sent or given to the stockholders is April 16, 2015.

The principal office of the Company is at the SMC Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City.

Dissenters' Right of Appraisal

As provided in Section 42 and Title X of the Corporation Code of the Philippines (the "Corporation Code"), a stockholder who shall have voted against any of the following proposed corporate acts may demand payment of the fair value of his/her shares in the exercise of his/her appraisal right:

1) when there is a change or restriction in the rights of any stockholder or class of shares;
2) when the corporation authorizes preferences in any respect superior to those of outstanding shares of any class;
3) when there is an extension or shortening of the term of corporate existence;
4) in case of a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets;
5) in case of a merger or consolidation; and
6) in the event of an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation is organized.

Section 82 of the Corporation Code provides the following procedure on how the appraisal right may be exercised by any stockholder who shall have voted against a proposed corporate action on any of the above instances:

1) A dissenting stockholder files a written demand within 30 days after the date on which the vote was taken. Failure to file the demand within the 30-day period constitutes a waiver of the appraisal right. Within 10 days from demand, the dissenting stockholder shall submit his/her stock certificates to the corporation for notation that such shares are dissenting shares. From the time of demand for payment until either abandonment of the corporate action or purchase of the shares by the corporation, all rights accruing to the shares (including voting and dividend rights) shall be suspended, except the stockholders' right to receive payment of the fair value of his/her shares.

2) If corporate action is implemented, the corporation pays the stockholder the fair value of his/her shares upon surrender of the certificate/s of stock. Fair value is the value of shares on the day prior to the date on which the vote was taken, excluding appreciation or depreciation in anticipation of such corporate action.

3) If the fair value is not determined within 60 days from date of action, it will be determined by three (3) disinterested persons (one chosen by the stockholder, another chosen by the corporation, and the last one chosen by both). The findings of a majority of the said appraisers will be final and their award will be paid by the corporation within 30 days after such award is made. Upon such payment, the stockholder shall forthwith transfer his/her shares to the corporation. No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings.

4) If the stockholder is not paid within 30 days from such award, his/her voting and dividend rights shall be immediately restored.

There is no matter to be voted upon during the Annual Stockholders' Meeting that will trigger the exercise by a stockholder of his/her appraisal rights under the law.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

There is no matter to be acted upon in which any of the current directors and executive officers and those who will be nominated as directors during the meeting is involved or had a direct, indirect, or substantial interest, other than election to office. Likewise, no director has informed the Company in writing of his/her opposition to any matter to be acted upon.

Voting Securities and Principal Holders Thereof

As of the date of this Information Statement, the total number of outstanding shares of the Company is comprised of 9,375,104,497 common shares, 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"), each with a par value of ₽1.00. The preferred shares issued by the Company in 2010 (the "PPREF Shares") were redeemed on March 5, 2015 pursuant to the approval by the Board of Directors on November 7, 2014.

The three (3) principal common shareholders of the Company are SEA Refinery Corporation ("SRC") (50.10%), San Miguel Corporation ("SMC") (18.16%), and the Petron Corporation Employees' Retirement Plan ("PCERP") (7.80%). SRC is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

All stockholders of record as of April 1, 2015 are entitled to notice and vote at the Annual Stockholders' Meeting. Each common share is entitled to one vote. Preferred shareholders have no voting rights except under instances provided under the Corporation Code. The preferred shareholders are entitled to vote on the proposed ratification of the approval of the Board of Directors of the amendment of the Company's Articles of Incorporation (the "Company's Articles") adding a re-issuability feature of the preferred shares.

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

The Company is not engaged in a business subject to foreign ownership restrictions. The equity ownership of foreigners is nevertheless set out below:

As of December 31, 2014

Class of Shares	Number of shares held by foreigners	Percentage to Total Outstanding Shares
Common shares (PCOR)	536,690,294	5.66%
Preferred shares (PPREF)	368,680	0.0039%
Series 2A Preferred Shares (PPRF2A)	6,570	0.00007%
Series 2A Preferred Shares (PPRF2A)	9,500	0.0001%
Combined common and preferred shares	537,075,044	5.66%

As of February 28, 2015

Class of Shares	Number of shares held by foreigners	Percentage to Total Outstanding Shares
Common shares (PCOR)	536,713,172	5.66%
Preferred shares (PPREF)	369,680	0.0039%
Series 2A Preferred Shares (PPRF2A)	13,590	0.0001%
Series 2A Preferred Shares (PPRF2A)	20,270	0.0002%
Combined common and preferred shares	537,116,712	5.66%

Security Ownership of Certain Record and Beneficial Owners and Management

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of February 28, 2015 is as follows:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percentage of Ownership
Common Shares	**SEA Refinery Corporation ("SRC")** 19/F Liberty Center Dela Costa St., Salcedo Village, Makati City Major Stockholder	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
Common Shares	**San Miguel Corporation ("SMC")** SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Major Stockholder	San Miguel Corporation	Filipino	1,702,870,560	18.16%
Common Shares	**Petron Corporation Employees' Retirement Plan** SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Major Stockholder	Petron Corporation Employees' Retirement Plan	Filipino	731,156,097	7.80%
Common Shares	**PCD Nominee Corporation** (Filipino) 37th Floor Tower 1 The Enterprise Center 6766 Ayala Avenue corner Paso de Roxas, Makati City Major Stockholder	PCD Nominee Corporation	Filipino	1,243,658,488[1]	13.27%

[1] The Company has no beneficial owner under the PCD Nominee Corporation that owns more than 5% shareholdings.

SRC is wholly-owned by SMC. SMC thus holds an aggregate 68.26% ownership of the common shares of the Company.

In the annual stockholders' meeting held in 2014, Mr. Ramon S. Ang, the Chairman of the meeting, represented and voted the shares registered in the names of SRC, SMC and PCERP. The representation of the afore-mentioned stockholders for the Annual Stockholders' Meeting will be based on the proxy that they will file in accordance with this Information Statement and the Company's By-Laws.

The security ownership of directors and executive officers as of February 28, 2015 is as follows:

<u>Directors</u>

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
Directors					
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			2,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Eric O. Recto	Filipino	1	D	0.00%
Preferred			300,000	I	0.00%
Series 2A Preferred			14,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Jose P. De Jesus	Filipino	500 / 100,000	D / I	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Romela M. Bengzon	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Margarito B. Teves	Filipino	500	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.

Officers

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
Executive Officers					
Common	Emmanuel E. Eraña	Filipino	100,000	I	0.00%
Preferred			20,000	I	0.00%
Series 2A Preferred			2,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Susan Y. Yu	Filipino	80,000	I	0.00%
Preferred			53,000	I	0.00%
Series 2A Preferred			10,500	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Albertito S. Sarte	Filipino	180,000	I	0.00%
Preferred			20,000	I	0.00%
Series 2A Preferred			5,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Preferred			1,000	I	0.00%
Series 2A Preferred			600	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Freddie P. Yumang	Filipino	73,600	I	0.00%
Preferred			10,000	I	0.00%
Series 2A Preferred			3,000	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Common	Efren P. Gabrillo	Filipino	8,001 / 25,000	D / I	0.00%
Preferred			1,500	I	0.00%
Series 2A Preferred			400	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Preferred			-	-	N.A.
Series 2A Preferred			400	I	0.00%
Series 2B Preferred			-	-	N.A.
Common	Rodulfo L. Tablante	Filipino	-	-	N.A.
Preferred			-	-	N.A.
Series 2A Preferred			-	-	N.A.
Series 2B Preferred			-	-	N.A.
Directors and Executive Officers as a Group		Common	594,183		**0.00%**
		Preferred	405,500		**0.00%**
		Series 2A Preferred	38,400		**0.00%**
		Series 2B Preferred	-		**0.00%**

As of February 28, 2015, the directors and executive officers of the Company owned 594,183 common shares, 405,500 preferred shares, and 38,400 Series 2A Preferred Shares for a total of 1,038,083 shares or 0.01% of the Company's total outstanding capital stock. No one of the directors and executive officers of the Company directly owns 5% or more of the outstanding capital stock of the Company.

On March 5, 2015, the preferred shares of the Company issued in 2010 (the "PPREF Shares") were redeemed by the Company in accordance with the approval by the Board of Directors on November 10, 2014. Consistent with the practice and procedure at the PSE and due to the lack of the feature of re-issuability of the preferred shares of the Company at the time of redemption, the PPREF Shares were delisted by the PSE on March 6, 2015.

Voting Trust Holders of 5% or more

The Company is not aware of any person holding 5% or more of the Company's outstanding voting shares under a voting trust agreement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

Directors and Executive Officers

Listed below are the incumbent directors and officers of the Company with their respective ages, citizenships, and current and past positions held and business experience for at least the past five (5) years.

The directorship of the directors in other companies listed in the Philippine Stock Exchange ("PSE) are specified.

A. Directors

The following are the incumbent directors of the Company:

Name	Period Served
Eduardo M. Cojuangco, Jr.	January 8, 2009 - present
Ramon S. Ang	January 8, 2009 - present
Lubin B. Nepomuceno	February 19, 2013 - present
Eric O. Recto	July 31, 2008 – present
Estelito P. Mendoza	January 8, 2009 - present[1]
Jose P. de Jesus	May 20, 2014 - present
Ron W. Haddock	December 2, 2008 - present
Aurora T. Calderon	August 13, 2010 - present
Mirzan Mahathir	August 13, 2010 - present
Romela M. Bengzon	August 13, 2010 - present
Virgilio S. Jacinto	August 13, 2010 - present
Nelly Favis Villafuerte	December 1, 2011 - present
Reynaldo G. David (Independent Director)	May 12, 2009 - present
Artemio V. Panganiban (Independent Director)	October 21, 2010 - present
Margarito B. Teves (Independent Director)	May 20, 2014 - present

[1] Previously served as a Director of the Company from 1974 to 1986.

Set out below are the profiles of the nominees for election as Directors of the Company at the Annual Stockholders' Meeting.

Eduardo M. Cojuangco, Jr., Filipino, born 1935, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Company's Executive and Compensation Committees. He holds the following positions, among others: Chairman and Chief Executive Officer of SMC and Ginebra San Miguel, Inc. ("GSMI"); Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc. and San Miguel Pure Foods Company, Inc. ("SMPFC"); and Director of Caiñaman Farms Inc. Mr. Cojuangco was formerly a director of the Manila Electric Company ("MERALCO"), member of the Philippine House of Representatives (1970-1972), Governor of Tarlac Province (1967-1979) and Philippine Ambassador Plenipotentiary. He also served as the President and Chief Executive Officer of United Coconut Planters Bank, President and Director of United Coconut Life Assurance Corporation, and Governor of the Development Bank of the Philippines. Of the companies in which Mr. Cojuangco currently holds directorships, SMC and Petron-affiliates GSMI and SMPFC all are also listed with the PSE. He attended the College of Agriculture at the University of the Philippines – Los Baños and the California Polytechnic College in San Luis Obispo, U.S.A. and was conferred a post graduate degree in Economics, *honoris causa*, from the University of Mindanao, a post graduate degree in Agri-Business, *honoris causa*, from the Tarlac College of Agriculture, a post graduate degree in Humanities, *honoris causa*, from the University of Negros Occidental-Recoletos, and a post graduate degree in Humanities, *honoris causa*, from the Tarlac State University.

Ramon S. Ang, Filipino, born 1954, has served as the Chief Executive Officer and an Executive Director of the Company since January 8, 2009 and the President of the Company since February 10, 2015. He is also a member of the Company's Executive Committee and Compensation Committee. He holds the following positions, among others: Chairman of Petron Malaysia Refining & Marketing Berhad ("PMRMB"), Las Lucas Construction and Development Corporation ("LLCDC"), New Ventures Realty Corporation ("NVRC"), and SEA Refinery Corporation ("SRC"); Chairman and Chief Executive Officer of Petron Marketing Corporation ("PMC") and Petron Freeport Corporation ("PFC"); Chairman and President of Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. ("PAHL"), Philippine Polypropylene Inc. ("PPI") and Robinson International Holdings Ltd.; Director of Petron Fuel International Sdn. Bhd. ("PFISB"), Petron Oil (M) Sdn. Bhd. ("POMSB"), Petron Oil & Gas Mauritius Ltd. ("POGM") and Petron Oil & Gas International Sdn Bhd. ("POGI"); Vice Chairman, President and Chief Operating Officer of SMC; Chairman of San Miguel Brewery Inc. ("SMB"), San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc. ("Liberty Telecoms"), and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Properties, Inc., Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation and Philippine Oriental Realty Development Inc.; Vice Chairman of GSMI and SMPFC; and President and CEO of Top Frontier Investment Holdings Inc. ("Top Frontier"); Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region. Of the companies in which Mr. Ang currently holds directorships, SMC, Liberty Telecoms and Petron-affiliates GSMI, SMPFC and Top Frontier are also listed with the PSE. Previously, Mr. Ang was Chief Executive Officer of the Paper Industries Corporation of the Philippines and Executive Managing Director of Northern Cement Corporation, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation. Mr. Ang has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

Lubin B. Nepomuceno, Filipino, born 1951, has served as a Director of the Company since February 19, 2013 and the General Manager of the Company since February 10, 2015. He is also a member of the Company's Executive Committee, Audit Committee and Compensation Committee. He holds the following positions, among others: President and Chief Executive Officer of PMC; Director and Chief Executive Officer of PMRMB; Director of POGI, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd.; Chairman of Petrogen Insurance Corporation ("Petrogen"); Trustee of Petron Foundation, Inc. ("PFI"); Chairman of Overseas Ventures Insurance Corporation Ltd. ("Ovincor"); Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; Independent Director of Manila North Harbour Port, Inc. ("MNHPI") and President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with SMC as a furnace engineer at the Manila Glass Plant in 1973 and rose to the ranks to become the General Manager of the San Miguel Packaging Group in 1998. He was also formerly the Senior Vice President and General Manager of the Company (September 2009 to February 2013) and the President of the Company (February 2013 to February 2015). Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and Masters Degree in Business Administration from the De La Salle

University. He also attended Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

Eric O. Recto, Filipino, born 1963, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of PFI; Chairman of Philippine Bank of Communications ("PBCom"); Chairman and CEO of ISM Communications Corporation ("ISM"), and Vice Chairman of Atok-Big Wedge Corporation ("Atok"); and President and Director of Q-Tech Alliance Holdings, Inc. Of the companies in which Mr. Recto currently holds directorships, PBCom, Atok, and ISM are also listed with the PSE. Mr. Recto was previously the President and Vice Chairman of the Company and a Director of SMC, PMRMB and MERALCO. He was formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. He also served as the President of the Company (2008-2013), Vice Chairman of the Company (2013-2014), Chairman of Petrogen and Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000). Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and a Masters degree in Business Administration from the Johnson School, Cornell University.

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

Jose P. de Jesus, Filipino, born 1934, has served as a Director of the Company since May 20, 2014. He is also the President and Chief Executive Officer of Nationwide Development Corporation from September 2011 to present. He was the President and Chief Operating Officer of MERALCO (February 2009 to June 2010), the Secretary of the Department of Transportation and Communications (July 2010 to June 2011), the President and Chief Executive Officer of Manila North Tollways Corporation (January 2000 to December 2008), Executive Vice President of the Philippine Long Distance Telephone Company (1993 to December 1999) and the Secretary of the Department of Public Works and Highways (January 1990 to February 1993). He was *Lux in Domino Awardee* (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also a director of Citra Metro Manila Tollways Corporation, Private Infra Development Corporation, South Luzon Tollway Corporation, Nationwide Development Corporation and KingKing Gold & Copper Mines, Inc. He is a Trustee of Bantayog ng mga Bayani Foundation, Kapampangan Development Foundation and Holy Angel University. Mr. de Jesus is a graduate of AB Economics and holds a Master of Arts in Social Psychology from the Ateneo de Manila University. He also finished Graduate Studies in Human Development from the University of Chicago.

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

Mirzan Mahathir, Malaysian, born 1958, has served as a Director of the Company since August 13, 2010. Among other positions, he is currently the Chairman and Chief Executive Officer of Crescent Capital Sdn Bhd. He holds directorships in several public and private companies in South East Asia. He also serves as President of the Asian Strategy & Leadership Institute, Chairman of several charitable foundations and a member of the Wharton School Executive Board for Asia and the Business Advisory Council of United Nations ESCAP. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992-2007), Executive Chairman of Sabit Sdn Bhd (1990-1992), Associate of Salomon Brothers in New York, U.S.A. (1986-1990) and Systems Engineer at IBM World Trade Corporation (1982-1985). He graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his Masters in Business Administration from the Wharton School, University of Pennsylvania, USA.

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

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

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

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

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

Artemio V. Panganiban, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He is a member of the Audit Committee. Apart from Petron, he is an independent director of the following listed companies: MERALCO, Bank of the Philippine Islands, First Philippine Holdings Corp., Philippine Long Distance Telephone Co., Metro Pacific Investment Corp., Robinsons Land Corp., GMA Network, Inc., GMA Holdings, Inc., Asian Terminals, Inc., and Non-executive Director of Jollibee Foods Corporation. He is a columnist for the Philippine Daily Inquirer and officer, adviser or consultant to several business, civic, educational and religious organizations. Director Panganiban was formerly the Chief Justice of the Supreme Court of the Philippines (2005-2006); Associate Justice of the Supreme Court (1995-2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor at the Far Eastern University, Assumption College and San Sebastian College (1961-1970). He is an author of over ten books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Chief Justice Panganiban earned his Bachelor of Laws degree, *cum laude*, from the Far Eastern University in 1960 and placed sixth in the bar exam that same year.

Margarito B. Teves, Filipino, born 1943, has served as an Independent Director of the Company since May 20, 2014 and the Chairman of the Governance Committee of the Company since July 3, 2014. He is likewise an independent director of other listed companies SMC and Atok. He is also the Managing Director of The Wallace Business Forum and Chairman of Think Tank Inc. He was the Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously the President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He was awarded as "2009 Finance Minister of Year/Asia" by the London-based The Banker Magazine. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

The incumbent independent directors of the Company have certified that they possess all qualifications and none of the disqualifications provided under the Securities Regulation Code (the "Code"). The certifications of the incumbent independent directors are attached hereto as Annexes A-1, A-2 and A-3.

The following have been endorsed for election as directors during the Annual Stockholders' Meeting:

- Eduardo M. Cojuangco, Jr.
- Ramon S. Ang
- Lubin B. Nepomuceno
- Eric O. Recto
- Estelito P. Mendoza
- Jose P. de Jesus
- Ron W. Haddock
- Mirzan Mahathir
- Aurora T. Calderon
- Romela M. Bengzon
- Virgilio S. Jacinto
- Nelly Favis-Villafuerte

The final list of nominees for independent directors names the following:

- Reynaldo G. David
- Artemio V. Panganiban
- Margarito B. Teves

The Nomination Committee created by the Board of Directors to pre-screen and shortlist candidates nominated to become members of the Board of Directors of the Company pursuant to the Corporate Governance Manual of the Company (the "CG Manual"), at its meeting held on March 17, 2015, reviewed the resumès of the above nominees. Upon finding that the candidates had all the qualifications and none of the disqualifications to be elected as directors as set out in applicable laws and regulations, the CG Manual and the Company's By-Laws, the Nomination Committee endorsed the above nominees for election as directors at the Annual Stockholders' Meeting. The Chairman of the Committee is Mr. Reynaldo G. David and the members are Atty. Estelito P. Mendoza and Atty. Virgilio S. Jacinto.

Messrs. David, Panganiban and Teves were nominated by Mr. Ramon S. Ang. Mr. Ang is not related to any of such nominees.

The procedure and selection of the independent directors were made in accordance with Section 38 of the Code, the Company's By-Laws and the CG Manual. In compliance with the provisions of Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code (the "Amended SRC Rules"), the Company's By-Laws were amended upon the approval by the Securities and Exchange Commission (the "SEC") on March 27, 2003 and further amended pursuant to the approval by the SEC on November 29, 2011.

The directors elected at the annual meeting will serve for a term of one year or until their successors shall have been elected and qualified, subject to the provisions of the Company's By- Laws.

B. Executive Officers

The following are the current key executive officers of the Company:

Name	Position	Date of Election
Ramon S. Ang	President and Chief Executive Officer	As President: February 10, 2015 – present; As Chief Executive Officer: January 2009-present
Lubin B. Nepomuceno	General Manager	February 2015-present
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	January 2009-present
Susan Y. Yu	Vice President - Procurement	January 2009-present
Albertito S. Sarte	Vice President - Treasurers and Treasurer	August 2009-present
Ma. Rowena Cortez	Vice President - Supply	September 2009-present
Freddie P. Yumang	Vice President - Refinery	September 2009-present
Archie B. Gupalor	Vice President - National Sales	March 2012-present

Efren P. Gabrillo	Vice President - Controllers and Controller	April 2010-present; as Vice President: August 2012
Joel Angelo C. Cruz	Vice President - General Counsel & Corporate Secretary and Compliance Officer	April 2010-present; as Vice President: March 2013
Rodulfo L. Tablante	Vice President - Operations	November 2013-present

Set out below are the profiles of the executive officers of the Company who are not directors.

Emmanuel E. Eraña, Filipino, born 1960, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC, POGM, PFISB, POMSB and MNHPI. Mr. Eraña served the following positions in the San Miguel Group: as the Vice President and Chief Information Officer (January 2008-December 2009), Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006-January 2008), Chief Finance Officer of SMFBIL/NFL Australia (May 2005-November 2006), Chief Finance Officer of SMPFC (July 2002-May 2005), and Finance Officer (January 2001-June 2002), Finance and Management Services Officer, San Miguel Food Group (2000-2001). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

Susan Y. Yu, Filipino, born 1976, has served as the Vice President for Procurement of the Company since January 2009. She is also a Trustee of PFI, Director of Ovincor and Petron Singapore Trading Pte. Ltd. ("PSTPL"). Ms. Yu has served as the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003-February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997-June 2003). She holds a commerce degree in Business Management from the De La Salle University and a Master's degree in Business Administration from the Ateneo de Manila University, for which she was awarded a gold medal for academic excellence.

Albertito S. Sarte, Filipino, born 1967, has served as the Vice President for Treasurers of the Company since August 2009, and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

Ma. Rowena O. Cortez, Filipino, born 1964, has served as the Vice President for Supply of the Company since September 2013, and concurrently the Director for Petron Singapore Trading Pte. Ltd. since June 2013. She is also a Director of Petrochemical Asia (HK) Limited, Robinson International Holdings Ltd., Mariveles Lando Corporation, and Pandacan Depot Services Inc. The various positions she has held in the Company include Vice President for Supply & Operations (July 2010 – August 2013), Vice President for Supply (June 2009 to June 2010) and various managerial and supervisory positions in the Marketing/Sales, and Supply and Operations Divisions of Petron. Ms. Cortez also held various positions at the Phil. National Oil Company - Energy Research and Development Center from 1986 to 1993. She holds a Bachelor of Science in Industrial Engineering and a Master's degree in Business Administration from the University of the Philippines, Diliman. She also took post graduate courses at the Asian Institute of Management and at the University of Oxford in Oxfordshire, UK. She has attended local and foreign trainings and seminars on leadership, market research, supply chain, risk management, petroleum, petrochemicals and energy.

Freddie P. Yumang, Filipino, born 1958, has served as the Vice President for Refinery of the Company since September 2009. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. He is the lead of the Company's Refinery Master Plan – Phase 2 project and has held various positions in the Company, including Operations Manager and Technical Services Manager, and different supervisory and managerial positions at the Petron Bataan Refinery. Mr. Yumang is currently a director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007). He is a Mechanical Engineering graduate of the Mapua Institute of Technology and has units in Master's in Business Administration from the De La Salle University. He also attended the Basic Management and Management Development Programs of the AIM in 1992 and 2002, respectively, in which he received separate awards for superior performance.

Archie B. Gupalor, Filipino, born 1968, has served as the Vice President for National Sales of the Company since March 2012. He has been with the San Miguel Group since 1991. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and attended several programs here and abroad, including the Executive Management Development Program of the Harvard Business Publishing.

Efren P. Gabrillo, Filipino, born 1955, has served as the Vice President for Controllers of the Company since July 2012. He is also a Director of PSTPL and the Controller of most of the Company's subsidiaries. The various positions he has held in the Company include Assistant Vice President for Controllers (June 2010-June 2012), Assistant Vice President for Internal Audit (September 2009-May 2010), and various supervisory and managerial positions in Accounting, Treasurers, Business Support and Services, and Materials and Services Procurement. A certified public accountant, Mr. Gabrillo is a member of the Philippine Institute of Certified Public Accountants. He is a graduate of Bachelor of Science in Commerce, major in Accounting, from the De La Salle University. He also completed the Management Development Program of the AIM in October 2003 and has attended numerous trainings here and abroad.

Joel Angelo C. Cruz, Filipino, born 1961, has served as the Vice President of the Office of the General Counsel of the Company since March 2013 and the Corporate Secretary and Compliance Officer of the Company since April 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, Corporate Secretary of LLCDC, NVRC, PMC, and PFC; Corporate Secretary of Petron Global Limited; Assistant Corporate Secretary of MNHPI; and Trustee of PFI. Atty. Cruz was formerly the Assistant Vice President of the Office of the General Counsel, Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries. He is a member of the Integrated Bar of the Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws from San Beda College. He attended the Basic Management Program of the AIM in 1997 as well as numerous local and foreign trainings and seminars.

Rodulfo L. Tablante, born 1953, has served as the Vice President for Operations of the Company since November 2013. He was the Head of Corporate Technical and Engineering Services Group of the Company from 2009 to 2013. Mr. Tablante was College Instructor and Mechanical Engineering Reviewer in the Cebu Institute of Technology (1975-1978 and 1976-1977, respectively), Process Control Engineer, Operations Planning and Control Head and Plant Operation Superintendent of SMC Mandaue Brewery (1976-1979, 1979-1980 and 1980-1984, respectively), Engineering Manager and Project Manager of SMC - Polo Brewery (1984-1989 and 1989-1992, respectively), Assistant Brewery Consultant, Assistant Vice President, Engineering Manager and Vice President and Engineering Manager of SMC - Corporate Technical Services (1992-2001, 2001-2004 and January 2005-2007, respectively). He was a consultant of SMC from 2007 until December 2009. Mr. Tablante has a Bachelor of Science degree in Mechanical

Engineering from the Cebu Institute of Technology and earned units for a Master's degree in Mechanical Engineering from the same institute.

Identify Significant Employees

The Company has no significant employee or personnel who is not an executive officer but is expected to make a significant contribution to the business.

Family Relationship

The Company has no director or officer related to any other director of officer up to the fourth degree of consanguinity or affinity.

Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five (5) years until the date of this Information Statement.

Certain Relationships and Related Transactions

The major stockholders of the Company are as follows:

- SEA Refinery Corporation - 50.10%
- San Miguel Corporation - 18.16%
- Petron Corporation Employees' Retirement Plan - 7.80%

The basis of control is the number of the percentage of voting shares held by each.

The Company has no transactions or proposed transactions with any of its directors or officers.

[Rest of page intentionally left blank;
"Compensation of Executive Officers and Directors" follows on next page]

Compensation of Executive Officers and Directors

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (in million pesos):

(a) Name & Principal Position		*(b) Year*	*(c) Salary*	*(d) Bonus*	*(e) Other Annual Compensation*
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	President, effective Feb. 10, 2015 & CEO General Manager, effective Feb. 10, 2015 SVP / Chief Finance Officer Vice President - Refinery Vice President - National Sales	2015 (est)	73.87	12.36	-
Ramon S. Ang Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang Archie B. Gupalor	Chairman President SVP / Chief Finance Officer Vice President - Refinery Vice President - National Sales	2014	71.86	42.35	-
Ramon S. Ang Eric O. Recto Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang	Chairman Vice-Chairman President SVP / Chief Finance Officer Vice President - Refinery	2013	80.71	6.13	-
Ramon S. Ang Eric O. Recto Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang	Chairman Vice-Chairman President SVP / Chief Finance Officer Vice President - Refinery	2012	76.01	39.22	-
All Other Officers & Directors as a Group Unnamed		2015 (est)	52.34	6.42	-
		2014	50.81	19.55	-
		2013	48.50	6.13	-
		2012	38.66	18.81	-

As of the date of this Information Statement, the Compensation Committee of the Company is composed of Mr. Eduardo M. Cojuangco, Jr. as the non-voting Chairman, Mr. Ramon S. Ang as a non-voting member, and Messrs. Lubin B. Nepomuceno, and Reynaldo G. David and Ms. Aurora T. Calderon as voting members. Mr. Ferdinand K. Constantino acts as advisor to the Compensation Committee. Under the CG Manual, the Chairman of the Board of Directors is the non-voting Chairman of the Compensation Committee and the President of the Company is a non-voting member of such committee.

Other Arrangements

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Employment Contract

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one year term until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any director elected in the interim will serve for the remaining term until the next annual meeting of the stockholders.

Warrants or Options

There are no warrants or options held by directors or officers.

Independent External Auditor

The Company's independent external auditor for the last fiscal year was R. G. Manabat & Co./KPMG ("KPMG"). KPMG was first appointed the external auditor of the Company in 2010. In 2013, Mr. Ador C. Mejia was the engagement partner assigned by KPMG to lead the audit of the Company's financial statements. The Board of Directors, upon the endorsement of the Audit Committee of the Company, nominated KPMG as the independent external auditor of the Company for fiscal year 2014 and the stockholders approved the nomination at the annual stockholders' meeting held on May 20, 2014. With the change in engagement partner in 2013, the Company is thus not yet subject to the rule on rotation for the signing partner every five (5) years under the Amended SRC Rules in respect of its engagement of KPMG.

Among the other functions set out in the CG Manual and the Audit Committee Charter, the Audit Committee primarily recommends to the Board of Directors each year the appointment of the external auditor to examine the accounts of the Company for that year. The Audit Committee of the Company is composed of Mr. Reynaldo G. David as the Chairman and Messrs. Lubin B. Nepomuceno, Estelito P. Mendoza and Artemio V. Panganiban, and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acts as advisor to the Audit Committee.

Duly authorized representatives of KPMG will be present at the Annual Stockholders' Meeting to respond to appropriate questions concerning the 2014 financial statements of the Company. KPMG auditors will also be given the opportunity to make a representation or statement in case they decide to do so.

Action with Respect to Reports

2014

At the Annual Stockholders' Meeting held on May 20, 2014, the Management reported on the 2013 performance of the Company. The Company closed with a net income of ₽5.1 billion as earlier disclosed to the SEC and the PSE on March 24, 2014.

All the actions of the Management and the Board of Directors in 2014 were done in accordance with the general resolutions of the Board of Directors which identify the corporate acts and transactions of the Company, the officer(s) or approving authority(ies) for corporate transactions, and the corresponding approval (amount) limit of such officer(s)/approving authority(ies), and/or the other more specific resolutions of the Board of Directors and the Executive Committee.

Among the significant actions undertaken in 2014 which were endorsed by the Management and approved by the Board of Directors (or approved by the Executive Committee then confirmed and ratified by the Board of Directors) are as follows:

1. Approval of items for the 2014 stockholders' meeting such as the date of meeting on May 19, 2014, the record date of April 8, 2014, the agenda of the meeting, and the endorsement of nominees for directors, including the final list of candidates for independent directors;
2. Appointments to the Executive, Nomination, Compensation and Audit Committees of the Company;
3. Election of directors/executive officers;
4. Approval of the amendment of the Company's Articles to expressly provide for the specific principal office of the Company in compliance with SEC Memo Circular No. 6, Series of 2014. ;

5. Issuance by the Company of undated subordinated capital securities (collectively, the "Capital Securities", more particularly described below in *"Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction - US$750 Million Undated Subordinated Capital Securities"*);
6. Declarations of (i) cash dividends of ₽0.05 per share to all common shareholders with a pay-out date of April 23, 2014, (ii) cash dividends of ₽2.382 per share to all shareholders of PPREF Shares for the second to the fourth quarters of 2014 and the first quarter of 2015 with pay-out dates of June 5, 2014, September 5, 2014, December 5, 2014 and March 5, 2015, respectively; (iii) cash dividends of ₽15.75 per Series 2A Preferred Share and ₽17.14575 per Series 2B Preferred Share to shareholders of such shares as of record date of January 20, 2015, with a pay-out date of February 3, 2015;
7. Redemption of the PPREF Shares at the redemption price of ₽100 per share with a record date of February 18, 2015 and a payment date of March 5, 2015;
8. Redemption of the Series B Notes (the "Series B Notes") issued by the Company in 2009 on December 5, 2014;
9. Public offering and issuance of the Series 2 Preferred Shares of the Company on November 3, 2014;
10. Amendment of the Corporate Governance Manual of the Company to comply with the requirements of the SEC; and
11. Creation of the Governance Committee of the Company and the election of the members of such committee.

Amendment of the Company's Articles

At the regular meeting of the Board of Directors held on May 6, 2014, the Board of Directors approved the proposal to amend Article Third of the Company's Articles to specify the principal office of the Company in furtherance of full corporate disclosure and transparency and in compliance with SEC Memo Circular No. 6, Series of 2014. The proposal was ratified by the stockholders at the annual stockholders' meeting held on May 20, 2014.

On June 10, 2014, the SEC approved the proposed amendment. Article Third of the Company's Articles now reads as follows:

> **"THIRD. -** The place where the principal office of the Corporation is to be established or located is 40 San Miguel Avenue, Mandaluyong City, Metro Manila. Branch offices may be established anywhere in the Philippines or abroad."

2015

At the Annual Stockholders' Meeting scheduled on May 19, 2015, the Management will report on the 2014 performance of the Company, which closed with a net income of ₱3.0 billion as disclosed to the SEC and the PSE on March 17, 2015.

In its meeting held on March 17, 2015, the Board of Directors approved the following items to be taken up at the Annual Stockholders' Meeting:

11. Review and approval of the minutes of the previous annual stockholders' meeting
12. Management report and submission to the stockholders of the financial statements for the Year 2014
13. Ratification of all acts of the Board of Directors and Management since the last stockholders' meeting in the year 2014
14. Ratification by the stockholders of the amendment of the Company's Articles for the provision of a re-Issuability feature of the Company's preferred shares
15. Appointment of an independent external auditor
16. Election of the Board of Directors for the 2015-2016.

A brief description of and the rationale for the above agenda items are set out in Appendix 1 of the notice of the Annual Stockholders' Meeting.

Amendment of the Company's Articles

At the regular meeting of the Board of Directors held on March 17, 2015, the Board of Directors approved the proposal to amend Article Seventh of the Company's Articles to expressly provide for the feature of the re-issuability of the preferred shares of the Company and the presentation of such proposal for the confirmation and ratification by the stockholders at the Annual Stockholders' Meeting.

The proposed amendment will allow the Company to have preferred shares to re-issue from treasury in addition to its unissued preferred shares and thus dispense the need for the amendment of the Company's Articles for future preferred share issuances. The amendment will also align the Company's Articles with those of its parent company, SMC.

Article Seventh of the Company's Articles is proposed to be amended as follows:

> *"**SEVENTH. -** The capital stock of the Corporation is Ten Billion Pesos (₱10,000,000,000.00), Philippine currency, and said capital stock is divided into Nine Billion Three Hundred Seventy Five Million One Hundred Four Thousand Four Hundred Ninety Seven (9,375,104,497) common shares and Six Hundred Twenty Four Million Eight Hundred Ninety Five Thousand Five Hundred Three (624,895,503) preferred shares, all with a par value of One Peso (₱1.00), Philippine currency, each. (As amended on December 22, 1993, as further amended on March 6, 1995 and April 17, 1995 by the Board of Directors and Stockholders, respectively, and as further amended on October 21, 2009 by the Board of Directors and by the Stockholders thru written assent)*
>
> *The preferred shares shall be non-voting, non-convertible and shall have preference over common shares in case of liquidation or dissolution of the Corporation. Preferred shares may be issued from time to time in one or more series as may be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors), which shall likewise be authorized to establish and designate each particular series of preferred shares, to fix the number of shares to be included in each of such*

series, and to determine the dividend rate, issue price and other features as well as other terms and conditions for each such series of shares. Preferred shares may or may not be cumulative, participating or redeemable as may likewise be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors).

Any and all preferred shares of the Corporation (whether unissued, issued, and outstanding, including all existing treasury shares) shall not be retired upon redemption but may be reissued under such terms and conditions and procedure as may be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors). Any preferred shares re-issued shall be given a new designation as a subsequent series.

No stockholder of the Corporation shall, because of his/its ownership of stock, have pre-emptive right to purchase, subscribe for or take any part of any stock or of any other securities convertible into or carrying the options or warrants to purchase stock of the Corporation. Any part of such stock or other securities may at any time be issued, optioned for sale, or sold or disposed of by the Corporation pursuant to a resolution of its Board of Directors, to any person, whether or not such person is a stockholder of the Corporation and upon such terms and conditions as such Board may deem proper without first offering such stock or securities or any part thereof to existing or other stockholders."

All qualified stockholders of the Company (including the holders of the non-voting preferred shares of the Company) will be entitled to vote on the amendment of the Company's Articles as described above at the Annual Stockholders' Meeting. The vote of at least two-thirds (2/3) of the outstanding capital stock of the Company is required to pass the proposal.

Voting Procedure

Each common share is entitled to one vote. A simple majority vote of the stockholders, where a quorum is present at the Annual Stockholders' Meeting scheduled on May 19, 2015, will be needed for the approval of the minutes of the previous stockholders' meeting, the ratification of all acts of the Board of Directors and Management since the last annual stockholder's meeting in 2014, and the appointment of the independent external auditor of the Company for 2015.

In the election of directors, the 15 nominees who get the highest votes shall be deemed duly elected as directors. Under the express provisions of the Company's By-Laws, cumulative voting is allowed in the election of directors. Thus, a stockholder may distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his/her shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares he/she has, or he/she may distribute them on the same principle among as many candidates as he/she shall see fit; provided, that the total number of votes cast by him/her shall not exceed the number of shares owned by him/her as shown in the books of the corporation multiplied by the whole number of directors to be elected.

The vote of at least two-thirds (2/3) of the outstanding capital stock, covering both common and preferred shares, will be necessary to ratify the approval of the Board of Directors of the amendments of Article Seventh of the Company's Articles to specify the feature of re-issuability of the preferred shares of the Company.

As provided in the Company's By-Laws, if at any meeting of the stockholders a vote by ballot shall be taken, a voting committee shall be created to adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the voting committee, who need not be stockholders, is required to subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability.

The external auditor of the Company will supervise the voting proceedings.

Management's Discussion and Analysis or Plan of Operation

The *Management's Discussion and Analysis of the Financial Conditions and Other Information* of the Company as of December 31, 2014 is attached hereto as Annex B.

Financial Statements

The *Statement of Management's Responsibility* and the Consolidated Audited Financial Statements of the Company as of December 31, 2014, including the Index to Financial Statements and the Supplementary Schedules, are attached hereto as Annex C.

[Signature page follows]

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on March 31, 2015.

PETRON CORPORATION

By:

Joel Angelo C. Cruz
VP - General Counsel &
Corporate Secretary

Upon the written request of the stockholder, the Company undertakes to furnish such stockholder with a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be directed to the Office of the General Counsel & Corporate Secretary, Petron Corporation, Podium B Level, SMC Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City, Philippines.

The Company will provide copies of SEC Form 17-Q for the period ending on March 31, 2015 during the annual stockholders' meeting scheduled on May 19, 2015.

ANNEX A

CERTIFICATIONS OF THE INDEPENDENT DIRECTORS

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certifications of the independent directors follow on next pages]

ANNEX A - 1

I.C.T.D. S E C
MAY 21 2014

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ARTEMIO V. PANGANIBAN**, Filipino, of legal age, and a resident of 1203 Acacia Street, Dasmariñas Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **Petron Corporation**;

2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/Relationship	Period of Service
First Philippine Holdings Corp.	Independent Director	2007-Present
Metro Pacific Investments Corp.	Independent Director	2007-Present
GMA Network, Inc.	Independent Director	2007-Present
Manila Electric Company, Inc.	Independent Director	2008-Present
Robinsons Land Corp.	Independent Director	2008-Present
GMA Holdings, Inc.	Independent Director	2009-Present
Bank of the Philippine Islands	Independent Director	2010-Present
Asian Terminals, Inc.	Independent Director	2010-Present
Philippine Long Distance Telephone Co.	Independent Director	2013-Present
Jollibee Foods Corporation	Non-Executive Director	2012-Present
Metropolitan Bank and Trust Co.	Senior Adviser	2007-Present
Double Dragon Properties Corp.	Adviser	2014-Present

(for my complete bio-data, please see my website: cjpanganiban.com)

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **Petron Corporation**, as provided for in Section 38 of the Securities Regulation Code and the Amended Implementing Rules and Regulations of the Securities Regulation Code.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of **Petron Corporation** of any changes in the abovementioned information within five (5) days from its occurrence.

DONE this 20th day of May 2014 at Mandaluyong City.

ARTEMIO V. PANGANIBAN
Independent Director

SUBSCRIBED AND SWORN to before me this MAY 20 2014 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Diplomatic Passport No. DE0000999 issued by the Department of Foreign Affairs, Manila on January 21, 2012.

Doc. No. 78;
Page No. 16;
Book No. II;
Series of 2014.

DON-VIC R. QUEZON
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
PTR No.
MCLE Compliance No.

ANNEX A-2

I.C.T.D. S E C MAY 21 2014

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNALDO G. DAVID**, Filipino, of legal age, and with mailing address at No. 35 Narra Street, South Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

I am an Independent Director of Petron Corporation.

I am not affiliated with any company or organization that directly or indirectly gives rise to a conflict of interest or violates SRC Rule 38.

I possess all the qualifications and none of the disqualifications to serve as in Independent Director of Petron Corporation as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.

I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

I shall inform the Corporate Secretary of Petron Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this 20th day of May 2014 at Mandaluyong City.

REYNALDO G. DAVID
Independent Director

SUBSCRIBED AND SWORN to before me this MAY 20 2014 at Mandaluyong City, affiant exhibiting to me his Passport with No. EB9544614 issued on November 8, 2013 at Manila, Philippines.

Doc. No. 35 ;
Page No. 16 ;
Book No. II ;
Series of 2014.

DON-VIC P. QUEZON
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
PTR No. ... Mandaluyong City
MCLE ... 13-25-13

ANNEX A-3

I.C.T.D. S E MAY 2 1 2014

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MARGARITO B. TEVES**, Filipino, of legal age, and a resident of 411 Ambuklao Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **Petron Corporation**;

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
Bank of Communications	Board Adviser	July 26, 2013 to present
Atlantic Aurum Investments Philippines Corporation	Independent Director	July 19, 2013 to present
AB Capital Investment Corp.	Independent Director	June 29, 2012 to present
San Miguel Corporation	Independent Director	June 14, 2012 to present
Alphaland Corporation	Independent Director	2011-Present
Atok-Big Wedge Co., Inc.	Independent Director	2011-Present
The City Club at Alphaland Makati Place, Inc.	Independent Director	2011–Present

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of Petron Corporation as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of Petron Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

DONE this 20th day of May 2014 at Mandaluyong City.

MARGARITO B. TEVES
Independent Director

SUBSCRIBED AND SWORN to before me this MAY 20 2014 at Mandaluyong City, affiant exhibiting to me his Passport Number EB00095211 issued on April 13, 2010 at DFA Manila.

Doc. No. 74;
Page No. 16;
Book No. II;
Series of 2014.

DONVIC P. QUEZON
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City

ANNEX A-4

SOME MATTERS APPROVED BY THE BOARD OF DIRECTORS (OR THE EXECUTIVE COMMITTEE) SINCE THE 2014 ANNUAL STOCKHOLDERS' MEETING UNTIL THE DATE OF THIS REPORT

<table>
<tr><th>Disclosure Date</th><th>Item Description</th></tr>
<tr><td>May 20, 2014</td><td>Matters approved at the annual stockholders' and organizational meetings held:

A. Annual Stockholders' Meeting

1. Amendment of the Articles of Incorporation of the Company indicating the complete principal office of the Company from "Metro Manila" to its present address at the San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila
2. Appointment of R.G. Manabat & Co. as independent external auditor of the Company for year 2014
3. Election of the following as directors of the Company for 2014-2015:

1. Ramon S. Ang
2. Eduardo M. Cojuangco, Jr.
3. Lubin B. Nepomuceno
4. Estelito P. Mendoza
5. Jose P. De Jesus
6. Eric O. Recto
7. Mirzan Mahathir
8. Ron W. Haddock
9. Romela M. Bengzon
10. Aurora T. Calderon
11. Virgilio S. Jacinto
12. Nelly Favis-Villafuerte

Independent Directors

1. Reynaldo G. David
2. Artemio V. Panganiban
3. Margarito B. Teves

B. Organizational Meeting

1. Appointment of the following as members of the board committees:

(i) Executive Committee

Ramon S. Ang - Chairman
Lubin B. Nepomuceno - Member
Aurora T. Calderon - Member
Eric O. Recto - Alternate Member
Virgilio S. Jacinto - Alternate Member</td></tr>
</table>

	(ii) Compensation Committee Ramon S. Ang - Chairman Lubin B. Nepomuceno - Member Virgilio S. Jacinto - Member Reynaldo G. David - Member Aurora T. Calderon - Member Ferdinand K. Constantino - Advisor (iii) Audit Committee Reynaldo G. David - Chairman Lubin B. Nepomuceno - Member Estelito P. Mendoza - Member Artemio V. Panganiban - Member Aurora T. Calderon - Member Ferdinand K. Constantino - Advisor (iv) Nomination Committee Reynaldo G. David - Chairman Estelito P. Mendoza - Member Virgilio S. Jacinto - Member 2. Election of the following as officers of the Company for 2014-2015: Ramon S. Ang - Chairman & CEO Lubin B. Nepomuceno - President Emmanuel E. Eraña - Senior Vice President & Chief Finance Officer Susan Y. Yu - VP, Procurement Rowena O. Cortez - VP, Supply Freddie P. Yumang - VP, Refinery Archie B. Gupalor - VP, National Sales Efren P. Gabrillo - VP, Controllers and Controller Albertito S. Sarte - VP, Treasurers and Treasurer Joel Angelo C. Cruz - VP - General Counsel & Corporate Secretary/Compliance Officer Rodulfo L. Tablante - VP, Operations Jaime O. Lu - VP and Operations Manager, Petron Malaysia Julieta L. Ventigan - AVP, Business Planning & Development Nathaniel R. Orillos - AVP, Refinery Production Nolan L. Rada - AVP, Reseller Trade David M. Mahilum - AVP, Refinery Maintenance Roland R. Evangelista - AVP, Power Plant & Utilities Dennis M. Floro - AVP, Supply Ma. Rosario D. Vergel de Dios - AVP, Human Resources

	Conrado S. Rivera - AVP, Industrial Trade Mary Ann M. Neri - AVP, Marketing Andrew S. Fortuno - AVP, Operations Magnolia D. Uy - AVP, Market Planning, Research and Sales Information Charmaine V. Canillas - AVP, Corporate Affairs Department Jhoanna Jasmine M. Javier-Elacio - Assistant Corporate Secretary 3. Adoption of the General Resolutions of the Company setting out the signing authority for certain corporate transactions (the "General Resolutions")
July 3, 2014	Matters approved at the special board meeting held: 1. Amendments to the Revised Manual of Corporate Governance of the Company to comply with, among others, SEC Memorandum Circular No. 9 (Series of 2014) and create the Governance Committee 2. Appointment of the following members and officers of the newly created Governance Committee: Margarito B. Teves - Chairman Virgilio S. Jacinto - Member Nelly Favis-Villafuerte - Member Joel Angelo C. Cruz - Committee Secretary 3. Appointment of Mr. Fernando S. Magnayon as Assistant Vice President - LPG, Lubes and Greases
August 6, 2014	Matters approved at the board meeting held: 1. 1st Semester 2014 Financial Statements 2. Issuance of preferred shares with features to be determined by the Executive Committee 3. Cash dividend for preferred shareholders Media release on performance also submitted.
September 4, 2014	Approval by the Executive Committee of the public offering of preferred shares
October 29, 2014	Approval by the Executive Committee of the redemption of the Series B Notes issued by the Company in 2009
November 7, 2014	Matters approved at board meeting held: 1. Year-to-date September 2014 Financial Statements 2. Cash dividend for preferred shareholders 3. Redemption of the preferred shares issued in 2010 4. Amendment of the General Resolutions
February 12, 2015	Matters approved at the board meeting held: 1. Election of Mr. Eduardo M. Cojuangco, Jr. as Chairman of both the Board of Directors and the Compensation Committee 2. Election of Mr. Ramon S. Ang as President resulting in his holding of the positions of President and Chief Executive Officer 3. Election of Mr. Lubin B. Nepomuceno as General Manager

March 17, 2015	Matters approved at the board meeting held: 1. Annual Stockholders' Meeting a. Date: May 19, 2015 b. Record date: April 1, 2015 c. Closing of books: April 2-13 3. Cash dividend for common shareholders 3. Cash dividends for preferred shareholders 4. Amendment of the Articles of Incorporation to add a re-issuability feature of the preferred shares and submission of the same for ratification at the Annual Stockholders' Meeting on May 19, 2015 5. Election of Mr. Eduardo M. Cojuangco, Jr. as Chairman of the Executive Committee 6. Appointment of Mr. Samuel S. Candido as Assistant Vice President – Refinery Technical Services

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND OTHER INFORMATION

Results of Operations

2014 vs. 2013

Amid the collapse of crude and finished product prices in the second half of 2014, Petron Corporation posted a better-than-expected **consolidated net income** of **₱ 3.0 billion**, down by 41% or ₱ 2.1 billion from last year's ₱ 5.1 billion. Higher sales volume, the completion of strategic projects, and pro-active risk-management cushioned the impact of higher priced inventory being sold at lower prices in the second half of the year. The price of benchmark Dubai crude fell by 44% from an average of US$108 per barrel in June to an average of only US$60 per barrel in December. This extraordinary development had a negative effect on oil companies around the world.

Combined sales from both Philippine and Malaysian operations increased by 6% to 86.5 million barrels in 2014 versus 81.7 million the previous year. As a result, **Revenues** grew by 4% from ₱ 463.64 billion to **₱ 482.54 billion**. In the Philippine market, sales volumes surged by nearly 9% to 51.5 million barrels as the company made headway in major market segments. Backed by the most extensive network in the country, retail volumes rose by 6%. LPG volumes likewise grew by 5% supported by higher retail and industrial sales.

Accordingly, **Cost of Goods Sold (CGS)** climbed to **₱ 463.10 billion** from last year's ₱ 440.48 billion on account of the 4.8 MMB growth in sales volume tempered by lower cost per liter. The reduction in cost was driven by the cheaper cost of crude and imported products that formed part of CGS partly offset by the depreciation of the Philippine peso relative to the US dollar from an average of ₱ 42.46 in 2013 to ₱ 44.40 in 2014.

Refinery Expenses including Refinery Fuel in the Philippines that went into CGS amounted to **₱ 13.39 billion** which exceeded prior year's ₱ 11.34 billion by 18% or ₱ 2.05 billion mainly due to increased fuel consumption prompted by higher production run.

Selling & Administrative Expenses (OPEX) escalated by 3% from ₱ 11.48 billion to **₱ 11.83 billion** due to increases in rent and insurance expense coupled by the depreciation of the additional and rebranded service stations.

Net Financing Costs & Other Income decreased by ₱ 0.95 billion or 20% to **₱ 3.79 billion** traced primarily to unrealized commodity hedging gain versus loss last year; partly offset by the lower interest income with the partial collection of advances to a related party.

Considering the foregoing, **Income tax expense** was reduced to **₱ 0.80 billion** vis-à-vis last year's ₱ 1.85 billion due to the significant decline in income before income tax.

2013 vs. 2012

In 2013, Petron registered a **consolidated net income** of **₱ 5.09 billion**, almost three times the ₱ 1.78 billion restated profit a year before. The significant increase in income was brought about by better margins, partly offset by the rise in selling and administrative expenses with the full consolidation of Petron Malaysia (PM) in 2013 versus nine months in 2012.

Revenues grew by 9% or ₱ 38.84 billion to **₱ 463.64 billion** from ₱ 424.80 billion in previous year with the full consolidation of PM. Excluding PM, sales of Petron Philippines (PP) dropped by ₱ 2.11 billion mainly due to lower volume on account of strategic rationalization of LPG and IFO accounts focusing only on profitable sales.

Sales volume generated in 2013 aggregated to **81.7 million barrels (MM**B), up by 10% or 7.4MMB from previous year's 74.3MMB essentially due to the full consolidation of PM's 34.4MMB sales volume.

Cost of Goods Sold (CGS) increased to **₱ 440.48 billion** from 2012's ₱ 406.80 billion likewise traced to the full consolidation of PM which contributed 40% (₱ 177.38 billion) to the total CGS. Meanwhile, CGS of PP dipped by 2% or ₱ 5.49 billion due to lower sales volume coupled by the drop in FOB per barrel of crude that formed part of CGS (2013: US$108.42 vs. 2012: US$111.88).

Refinery Operating Expenses in PP which formed part of CGS went up by 7% or ₱ 0.48 billion to **₱ 6.88 billion** in 2013. The increase was attributed to higher employee cost due to additional manpower complement, and higher purchased services and utilities, tempered by lower maintenance and repairs.

Selling & Administrative Expenses (OPEX) totaled **₱ 11.48 billion** in 2013, ₱ 1.34 billion more than the ₱ 10.14 billion expenditures in the preceding year brought about by the full consolidation of PM's expenses which added ₱ 3.55 billion to the total OPEX. Similarly, PP's expenditures rose by 4% or ₱ 0.30 billion mainly due to higher employee costs, rental expense, and materials and supplies, partially offset by lower advertising expense and the absence of one-off items in 2013.

Net Financing Costs & Other Charges significantly dropped to **₱ 4.74 billion** from ₱ 5.62 billion in 2012 largely due to higher capitalized interest of the on-going Refinery Master Plan-2 Project and higher interest income. These were partly negated by higher bank charges and unrealized translation losses on US-dollar denominated transactions in 2013 as opposed to the gains recognized in the previous year as the Philippine Peso gradually depreciated this year versus the US dollar.

With the remarkable upsurge in income before income tax, **Income tax expense** increased to **₱ 1.85 billion** in 2013 from ₱ 0.46 billion in 2012.

2012 vs. 2011

Petron closed 2012 with a restated **consolidated net income** of **₱ 1.8 billion,** 80% or ₱ 7.1 billion lower than the ₱ 8.9 billion net income recorded in 2011. Despite the ₱ 2.2 billion restated loss incurred in the second quarter of 2012 due to the volatility in crude and product prices, the company managed to recover and posted a modest income.

Revenues increased by 55% to **₱ 424.80 billion** from ₱ 273.96 billion in 2011 due to the consolidation of PM starting in the second quarter of 2012 and the increase in domestic sales volume.

Sales volume grew by 59% to **74.3 million barrels (MM**B) from previous year's 46.7MMB. Aside from the 26.6MMB sold by PM, domestic sales volume also improved by 8%, from 41.3MMB to 44.5MMB. The increase was contributed by all major sectors like Retail, Industrial and LPG which enabled the company to sustain market leadership at a share of 39%.

Cost of Goods Sold (CGS) went up by 62% or ₱ 155.19 billion from ₱ 251.61 billion in the preceding year to **₱ 406.80 billion.** The rise in cost was prompted by the growth in sales volume compounded by the escalation in the FOB of crude that went into cost. Of the total CGS, thirty-four (34) percent pertained to PM.

Refinery Operating Expenses in the Philippines which form part of CGS increased by 14% to **₱ 6.40 billion**, from the ₱ 5.64 billion incurred in 2011. The increase was brought about by higher maintenance and repair costs related to the scheduled repair of various process units and turnaround of tanks, rise in consumption and price of catalysts and depreciation of completed projects.

Selling & Administrative Expenses (OPEX) of **₱ 10.14 billion** exceeded previous year's ₱ 7.23 billion level by 40% owing primarily to the ₱ 2.50 billion expenses of PM. Philippine operation's expenditures increased by 6% or ₱ 0.40 billion due to higher advertising expenses as well as expenses related to the acquisition of PM .

Net Financing Costs & Other Charges substantially increased to **₱ 5.62 billion** from the ₱ 3.36 billion level of the previous year. This was attributed to higher borrowing level despite lower borrowing rate aggravated by the drop in interest earned from advances to PCERP. The increase was partly offset by the decline in share in net losses of associates and higher gains from US-dollar denominated transactions.

With the significant drop in income before income tax, **Income tax expense** decreased from ₱ 2.83 billion in 2011 to **₱ 0.46 billion** in 2012.

Financial Condition

2014 vs 2013

The **consolidated assets** of Petron by the end of 2014 amounted to **₱ 391.32 billion, 9%** or **₱ 33.87 billion higher** than end-December 2013 level of ₱ 357.46 billion mainly due to the increases in cash and cash equivalents and property, plant and equipment partly offset by the reduction in other non-current assets and trade and other receivables.

Cash and cash equivalents increased by 80% or ₱ 40.2 billion to **₱ 90.6 billion** sourced from collection of receivables and proceeds from issuance of preferred shares.

Financial assets at fair value through profit or loss dropped by 40% (₱ 313 million) to **₱ 470 million,** traced to lower marked-to-market gain on outstanding foreign currency forwards.

Trade and other receivables-net stood lower at **₱ 56.30 billion (**by ₱ 11.37 billion or 17%**),** brought about by the collection of receivables from the government of Malaysia and various airline accounts.

Other current assets of **₱ 18.0 billion** registered a 40% hike from December 2013 level emanated from PP's additional excess input VAT on imported raw materials and advance payment of excise taxes.

Property, plant and equipment - net reached **₱ 153.65 billion** in December 2014, ₱ 12.0 billion higher than December 2013's ₱ 141.65 billion mark. The 8% increase was attributed to PP's RMP-

2 project and network expansion program as well as the refurbishment and rebranding of service stations in Malaysia.

Investment in associates surged to **₱ 1.16 billion** triggered by the additional investment to Manila North Harbour Port, Inc., and the corresponding share in its net income during the year.

Deferred tax assets escalated by 49% (₱ 80 million) and settled at **₱ 242 million** on account of temporary differences of PM.

Goodwill decreased by 5% (₱ 465 million) to **₱ 8.92 billion** prompted by the depreciation of the ringgit vis-à-vis the US dollar.

Other noncurrent assets-net significantly declined by 63% from ₱ 20.85 billion to **₱ 7.76 billion** driven by the partial collection of advances to Petron Corporation Employees Retirement Plan as well as the remeasurement in pension asset value.

Short-term loans and liabilities for crude oil and petroleum product importation amounted to **₱ 157.42** billion and posted a 13% increase from ₱ 138.78 billion in December 2013 as a result of the additional loan availed by PP, partly reduced by the decline in prices of crude and finished product importations of both PP and PM.

Trade and other payables of ₱ 39.14 billion increased by 34% from the ₱ 29.29 billion level as at end of 2013 with the transfer of the maturing retention payable to current liabilities and increased payables to various contractors.

Derivative liabilities of ₱ 98 million went lower from the ₱ 152 million level as at end of 2013 influenced mainly by the lower loss on outstanding transactions with embedded derivatives.

Long-term debt inclusive of current portion increased by 9% (₱ 5.94 billion) principally due to the newly availed loan of PM and PP to refinance maturing and other long-term obligations.

Income taxes payable of **₱ 73 million** dipped by 62% from ₱ 194 million in December 2013 traced from lower taxes payable of Petron Malaysia.

Retirement benefits liability substantially increased to **₱ 2.27 billion** as a result of the remeasurement reversal of PP's retirement plan asset into liability.

Deferred tax liabilities-net dropped by ₱ 1.13 billion (25%) to **₱ 3.47 billion** due largely from the reversal of net pension asset into liability in addition to the provision from the resulting net operating loss and payment of minimum corporate income tax.

Asset Retirement Obligation (ARO) moved-up to **₱ 1.66 billion** from ₱ 1.0 billion in December 2013 due to the recognition of ARO of the Refinery.

Other noncurrent liabilities declined by 70% to **₱ 1.37 billion** with the reclassification of maturing retention payable to current liabilities partly offset by the increases in dealers' cash bond and cylinder deposit.

Additional paid-in capital of ₱ 19.65 billion more than doubled the ₱ 9.76 billion in previous year with the issuance of Series 2 preferred shares in November 2014. Net proceeds will be used in March 2015 to redeem the outstanding preferred shares issued in 2010.

Reserve for retirement plan resulted in negative value of **₱ 1.02 billion** due to the recognition of actuarial losses in the remeasurement of PP's plan asset.

The negative ₱ 2.15 billion Other reserves as of end-December 2014 almost tripled the negative ₱ 721 million level as of end December 2013 brought about by the increase in translation loss on equity in foreign subsidiaries.

Non-controlling interests ended lower by ₱ 1.56 billion from ₱ 17.92 billion to **₱ 16.36 billion** prompted by PGL and PMRMB's payment of dividends to preferred and common stockholders, respectively.

<u>**2013 vs 2012**</u>

Petron's **consolidated assets** as of December 31, 2013 stood at **₱ 357.46 billion, 28%** (**₱ 77.13 billion**) higher than the ₱ 280.33 billion restated level as at end of December 2012 on account largely of the increases in property, plant and equipment and cash and cash equivalents.

Cash and cash equivalents rose by 87% or ₱ 23.43 billion to **₱ 50.40 billion** essentially sourced from internally generated funds and proceeds from loans to finance crude and product importations.

Financial assets at fair value through profit or loss of **₱ 783 million** substantially exceeded 2012's ₱ 186 million level brought about by higher marked-to-market gain on outstanding foreign currency forwards.

Trade and other receivables - net climbed by 17% or ₱ 9.94 billion to **₱ 67.67 billion** prompted by the increases in PP's receivables from government and customers.

Other current assets of **₱ 12.93 billion** stood higher by 20% from 2012's ₱ 10.75 billion traced to PP's input VAT.

With the sale of the remaining Petron MegaPlaza units and parking spaces in the second quarter, the company has no **Assets held for sale** as of end-December 2013.

Property, plant and equipment - net surged by 36% (₱ 37.54 billion) from ₱ 104.11 billion to **₱ 141.65 billion** attributed to the company's major capital projects such as Refinery Master Plan (RMP)-2 and network expansion, as well as PM's rebranding of service stations.

The reclassification of Petrochemical Asia (HK) Limited (PAHL) from an associate to a subsidiary resulted in the significant reduction of **Investment in associates** from 2012's ₱ 1.64 billion to **₱ 885 million**.

Deferred tax assets of **₱ 162 million** more than doubled the end-December 2012 level of ₱ 78 million on account of the temporary differences of PM and PAHL.

Other noncurrent assets-net increased by 12% or ₱ 2.2 billion to **₱ 20.85 billion** basically due to company's higher pension asset since substantial amount of actuarial gain was recorded in 2013.

Short-term loans and **liabilities for crude oil and petroleum product importations** went up by 11% or ₱ 14.08 billion to **₱ 138.78 billion** owing to both PP and PM's higher liabilities for crude oil and finished product importations.

Trade and other Payables rose by 97% (₱ 14.42 billion) to **₱ 29.29 billion** brought about by higher liabilities to company's contractors and suppliers.

Derivative Liabilities decreased by 38% from ₱ 245 million to **₱ 152 million** due mainly to the company's lower marked-to-market loss on outstanding foreign currency forwards tempered by the decline in fair value of outstanding transaction with embedded derivatives.

Income tax payable of **₱ 194 million** went beyond the ₱ 52 million level in 2012 basically on account of the taxes payable of PM.

Long-term debt inclusive of current portion increased by 18% (₱ 10.17 billion) to **₱ 66.19 billion** with the final drawdown of US$210 million loan in January 2013 to complete the US$485 million loan secured in 2012.

Retirement benefits liability declined by 17% from ₱ 983 million to **₱ 820 million** mainly from PM's actuarial gain recorded this year.

Deferred tax liabilities moved up by 47% (₱ 1.46 billion) to **₱ 4.61 billion** due to PP's utilization of minimum corporate income tax and net operating loss carried over from previous year as well as the recognition of deferred tax on retirement's actuarial gain.

Other noncurrent liabilities climbed by 86% (₱ 2.10 billion) to **₱ 4.54 billion** principally due to additional retention payable to contractors.

Total equity amounted to **₱ 111.89 billion**, 45% or ₱ 34.99 billion higher than the ₱ 76.90 billion level in 2012 due to the ₱ 30.55 billion undated subordinated capital securities issued during the first quarter of 2013.

2012 vs 2011

Petron ended 2012 with **total assets** of **₱ 280.33 billion** (as restated), 57% or ₱ 101.21 billion higher than the end-December 2011 level of ₱ 179.12 billion (as restated). The growth was due to the consolidation of PM and the increases in property, plant and equipment, and receivables of PP.

Cash and cash equivalents rose by 13% to **₱ 26.97 billion** sourced mainly from the issuance of preferred shares, collection of PCERP advances and net loan availment. This was partly reduced by major capital expenditures at the Petron Bataan Refinery ("PBR" or the "Refinery"), construction of additional service stations, acquisition of PM and increase in government receivables.

Financial assets at fair value through profit or loss decreased by 22% from ₱ 237 million to **₱ 186 million** with the sale of a number of stock investments partly tempered by higher market value of proprietary membership shares.
Trade and Other Receivables-net amounted to **₱ 57.73 billion,** more than double the ₱ 26.61 billion level reported in 2011 attributed mainly to PM's receivables coupled with the increase in company's collectibles from the government.

Inventories grew by 31% from ₱ 37.76 billion to **₱ 49.58 billion** chiefly due to the consolidation of PM's inventories.

Other current assets of **₱ 10.75 billion** also registered a 31% increase from 2011's ₱ 8.18 billion level attributed to Petron's higher input VAT, and prepaid taxes and other expenses of PM and PP.

Assets held for sale surged to **₱ 588 million** from 2011's ₱ 10 million mainly due to the reclassification of Petron MegaPlaza units and parking spaces which resulted in the decline in **Investment Property - net**, from ₱ 794 million to **₱ 115 million**.

Property, plant and equipment-net escalated to **₱ 104.11 billion** (as restated) from the December 2011 balance of ₱ 50.45 billion traced primarily to the capital projects at the Refinery such as the Refinery Master Plan Phase 2 (RMP-2) and Refinery Solid Fuel-Fired Power Plant (RSFFPP), construction of additional service stations as well as the fixed assets of the newly acquired subsidiary in Malaysia.

Investment in associates dropped from ₱ 2.51 billion to **₱ 1.64 billion** with the conversion of Limay Energen Corporation from an associate to a subsidiary, partly countered by the additional investment in PAHL.

Available-for-sale financial assets (current and non-current) slid by 12% to **₱ 911 million** basically on account of premium amortization and translation loss of Ovincor's investment in government securities along with matured debt securities of Petrogen.

Deferred tax assets of **₱ 78 million** went beyond 2011's ₱ 15 million level attributed to the deferred tax asset of PM.

The acquisition of Petron Malaysia, Parkville Estate and Development Corporation, and Mariveles Landco Corporation resulted in the recognition of **Goodwill** for **₱ 9.03 billion** (as restated).

Restated **Other noncurrent assets-net** dipped by 33% from ₱ 27.71 billion to **₱ 18.64 billion** due to the partial collection of advances to PCERP tempered by the balance brought in by PM.

Short-term loans and **liabilities for crude oil and petroleum product importations** increased considerably from ₱ 54.44 billion to **₱ 124.70 billion** due to additional short-term loan availments of PP and the consolidation of PM.

Trade and other Payables of **₱ 14.87 billion** doubled compared with the ₱ 7.38 billion level as at end of December 2011 prompted by higher liabilities to contractors related to the Company's capital projects on top of the trade and other payables of Petron Malaysia.

Derivative Liabilities ballooned from ₱ 55 million to **₱ 245 million** brought about by the marked-to-market loss on outstanding foreign currency forwards.

Income tax payable showed a 33% reduction from ₱ 78 million to **₱ 52 million** chiefly due to lower taxes payable of PSTPL.

Long-term debt inclusive of current portion went up by 12% from ₱ 49.87 billion to **₱ 56.01 billion** due to newly availed dollar loans to support the capital requirements of the Company.

Restated **Retirement benefits liability** increased significantly to **₱ 983 million** from 2011's ₱ 4 million mainly from the balance of the newly acquired subsidiary in Malaysia.

Asset retirement obligation dropped by 6% from ₱ 1.06 billion to **₱ 1.00 billion** essentially on account of lower accretion rate and contract extensions on various locations.

The surge in **Other noncurrent liabilities** from ₱ 740 million to **₱ 2.44 billion** emanated largely from Petron's retention payable to contractors of major capital projects at the Refinery partly reduced by the drop in cylinder deposits.

Total equity closed at **₱ 76.90 billion** (as restated) as of December 31, 2012 and surpassed the ₱ 62.48 billion (as restated) level as at end of December 2011 by 23% or ₱ 14.42 billion, largely from the issuance of preferred shares by a subsidiary.

Cash Flows

2014 vs 2013

In 2014, funds generated from operations were not enough to support the company's working capital requirements and interest payments. Meanwhile, net investing outflows were largely due to capital expenditures at the Refinery and in Malaysia tempered by the partial collection of advances to PCERP. On the other hand, financing activities provided cash inflows of ₱ 44.49 billion sourced from proceeds from net availment of loans and issuance of preferred shares partly reduced by the payment of dividends and distributions.

In Million Pesos	**December 31, 2014**	**December 31, 2013**	**Change**
Operating inflows (outflows)	(576)	33,752	(34,328)
Investing outflows	(3,820)	(43,329)	39,509
Financing inflows	44,488	32,539	11,949

2013 vs 2012

Operating activities contributed **₱ 33.75 billion** to the company's cash balance. Meanwhile, proceeds from issuance of undated subordinated capital securities and net availment of loans were used to finance the major capital projects at the Refinery and construction of additional service stations.

2012 vs 2011

Cash inflows from operating activities amounted to **₱ 1.85 billion**. Meanwhile, proceeds from net availment of loans, partial collection of advances to PCERP, as well as the issuance of preferred shares were used to finance the major capital projects at the Refinery, construction of additional service stations and the acquisition of subsidiaries. Cash balance as at end of 2012 stood at ₱ 26.97 billion.

Discussion of the Company's key performance indicators:

Ratio	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
Current Ratio	1.1	1.0	1.0
Debt to Equity Ratio	2.7	2.4	2.7
Return on Equity (%)	2.7	5.4	3.4
Interest Rate Coverage Ratio	2.8	3.2	1.9
Assets to Equity Ratio	3.4	3.2	3.7

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

This ratio is a rough indication of a company's ability to service its current obligations. Generally, higher current ratio indicates greater ability of the company to pay currently maturing obligations.

Debt to Equity Ratio - Total liabilities divided by tangible net worth.

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

Return on Equity - Net income divided by average total stockholders' equity.

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity fund in the statements of financial position. A business that has a high return on equity is more likely capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

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

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

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

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

Business Conditions

Philippine economic growth decelerated in 2014 but remains remarkable. After the robust 7.2% growth in 2013, gross domestic product ("GDP") expanded by 6.1% in 2014. Although this is lower than the 2013 growth, it is still remarkable and higher than the average growth of about 5% in the last 10 years. Healthy industry sectors such as manufacturing and construction, booming services sector such as tourism and business process outsourcing sectors; strong household consumption with robust remittance inflow from overseas Filipino workers and weaker peso boosting purchasing power of households; and exports with the improving economy of US (number 2 export destination of the Philippines, next to Japan) upheld GDP growth. This is despite the setbacks to the economy such as: slow implementation of rehabilitation works in the earthquake and typhoon-struck Visayas region; stalled movement of goods due to the truck ban implemented in Manila; and the sluggish government spending as agencies became more prudent in disbursing funds amidst the height of corruption issues.

Domestic petroleum products demand (excluding demand for lubes and greases) continues to grow. Domestic oil demand expanded from 321.9 thousand barrels per day ("MBD") in 2013 to about 339.3 MBD as of year-to-date June 2014 (based on published industry data from the Department of Energy ("DOE")). High GDP growth with robust personal spending, vibrant industry sectors, and increasing vehicle sales pushed oil demand.

The peso was volatile in 2014. Starting the year at about $44-45/$ levels, the peso strengthened to P43 levels in May to August, but depreciated back to P44-45/$ levels towards the end of the year. US' tapering and subsequent exit from its quantitative easing program in 2014 and the stagnating economic growth of China, India and Eurozone stirred the volatility in foreign exchange movement.

Inflation and interest rates rose in 2014, but still at manageable levels. In 2014, inflation averaged 4.1%, higher than the 3.0% average in 2013. Despite the higher prices in 2014, inflation remained manageable and still within the government's target of 3-5% for 2014.

Slight uptick in interest rates was also seen in 2014, along with the increase in inflation. From 0.8 in 2013, three (3)-month PDST-F averaged 1.5% in 2014, while 91-day T-bills averaged 1.2% from 0.3% in 2013.

Oil prices took a beating in 2014. After hovering at $100-110/bbl in the first half of 2014, crude prices took a plunge in the 2H, with Dubai dropping to a low of $52.9/bbl by yearend. This is a drop of about 50% from 2013 yearend price of $108/bbl. Dubai averaged $96.7/bbl in the full year 2014, 8% lower than 2013 average of $105.4/bbl. Crude oversupply due to additional US production from shale fields and the stance of the Organization of the Petroleum Exporting Countries to maintain production levels and compete in the oil market, coupled by easing demand and economic growth in China, India, and Europe, pulled down prices to the lowest levels since 2009 during the global financial crisis.

Product prices also followed the volatility of crude and dropped in the second half of the year. Muted economic growth of China, India, and Eurozone also influenced demand and product prices.

Industry competition remained tight. Despite new players' aggressive competition in the market, their collective market share as of the first half of 2014 dropped to 26.1% from 28.4% in 2013. Majors curtailed their growth with combined market share gaining by 1.9 percentage points to 71.1% in the first half 2014 from 69.2%. Petron improved its market share from 36.5% in 2013 to 37% in the first half of 2014.

Any event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Tax Credit Certificates-Related Matters

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

Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the Company, Pilipinas Shell Petroleum Corporation ("Shell") and Chevron Philippines Inc. ("Chevron") from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Company, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and the 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 Company filed a petition with the Regional Trial Court ("RTC") to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance ("Ordinance 8119"), which applied to the entire City of Manila. Ordinance 8119 allowed the Company (and other non-conforming establishments) a seven (7)-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (the "Water Code"). On February 13, 2008, the Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared

Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

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

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. The Company filed a notice of appeal on January 23, 2013. The Company submitted its appellant's brief on July 29, 2013. On December 19, 2013, the Company, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. On February 11, 2014, the Company filed its appellant's reply brief. The appeal remains pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinment of its implementation. The Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016. On November 25, 2014, the Supreme Court issued a Decision ("November 25 Decision") declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. The Company, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six (6) months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Company, the Supreme Court denied Shell's motion with finality, clarified that relocation and transfer necessarily include removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule.

Guimaras Oil Spill Incident

On August 11, 2006, MT Solar I, a third party vessel contracted by the Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the 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 Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication ("DOTC") and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

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

Any significant elements of income or loss (from continuing operations)

There are no significant elements of income or loss from continuing operations.

Seasonal aspects that has material effect on the FS

There are no seasonal items that have material effect on the financial statement.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

Audit and Audit-Related Fees

For the annual review of the financial statements, consultancy services and other related services, the Company paid KPMG, its external auditor, as well as Uy, Singson, Abella Co., and AMC & Associates, the aggregate amount of P14.1 million in 2013 and P9.3 million in 2014. The fees are more particularly set out below:

	2014	2013
(a) Audit fees for professional services - Annual Financial Statement[1]	6,324,000.00	6,026,150.00
(b) Professional fees for due diligence and study on various internal projects	694,125.51	7,232,179.64
(c) Professional fees for tax consulting services	2,287,516.99	806,312.36
	9,305,642.50	14,064,642.00

[1] Audit fees are tax-exempt and exclusive of out-of-pocket expenses

After the three (3)-year contract with its previous external auditor, the Company appointed in 2010 KPMG, the current independent auditor of SMC. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

The appointment of KPMG as the Company's external auditor for 2010 to 2012, subject to annual review of its performance, was endorsed by the Audit Committee for the approval by the Board of Directors. The Board of Directors, finding the recommendation to be in order, in turn, endorsed the appointment of the independent external auditor for the approval of the stockholders during the annual stockholders' meeting in 2010. For years 2011, 2012, and 2013, KPMG was found to have satisfactorily performed its duties as external auditor and was endorsed by the Audit Committee for the approval by the Board of Directors. The Board of Directors, finding the recommendation to be in order, endorsed the appointment of the independent external auditor for the approval of the stockholders during the annual stockholders' meeting for years 2011, 2012, 2013 and 2014. KPMG was appointed as external auditor by the stockholders at each such annual stockholders' meeting.

Set out below is the report of the Audit Committee for the year 2014.

The Board of Directors
Petron Corporation

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

In the performance of our responsibilities, we report that in 2014:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of R.G. Manabat & Co./KPMG as the company's independent auditors for 2014;
- We reviewed with R.G. Manabat & Co./KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with R.G. Manabat & Co./KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Head and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function;
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period; and
- We approved Petron's Internal Control Policy which will continuously educate the employees on the importance of internal control systems and procedures for the attainment of their respective business objectives and for its distribution to all offices company-wide.

The Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2014.

Reynaldo G. David
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Independent Director

Aurora T. Calderon
Director

Lubin B. Nepomuceno
Director

Material Commitments for Capital Expenditure

The Company spent P14.4 billion in capital investments for 2014. Bulk or P12.2 billion of the total was spent for the expansion of the Petron Bataan Refinery. Meanwhile, service station-related expenditures totaled P0.6 billion and P1.6 billion for other commercial, maintenance and miscellaneous projects.

In 2013, the Company spent P51.0 billion in capital investments for 2013. Bulk or P48.6 billion of the total was spent for the expansion of the Petron Bataan Refinery. In addition, service station-related expenditures totaled P1.8 billion and P0.6 billion for other commercial, maintenance and miscellaneous projects.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with the accountants on accounting and financial disclosure.

Description of the Nature and Business of the Company

(1) Business Development

(i) The Company

Petron was incorporated in the Philippines on December 22, 1966 as "Esso Philippines Inc." Petron was renamed "Petrophil Corporation" in 1974 when the Philippine National Oil Company ("PNOC") acquired it. In 1985, Petrophil and Bataan Refinery Corporation (formerly, the "Standard Vacuum Refining Corporation") were merged with then Petrophil Corporation as the surviving corporation. The Company changed its corporate name to "Petron Corporation" in 1988. The Company's original 50-year corporate term would expire on December 22, 2016. At its meeting held on November 12, 2012, the Board of Directors approved the extension of the corporate term of the Company for another 50 years and the relevant amendment of the Company's Articles. This proposed amendment was ratified by the stockholders at the annual stockholder's meeting held on May 21, 2013. On September 13, 2013, the SEC approved the amendment of the Company's Articles by extending the corporate term of the Company for another 50 years from and after December 22, 2016.

On March 13, 2008, Aramco Overseas Company B.V. ("AOC"), one of the Company's major shareholders in 1994, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a transfer notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC, which then held 40% of Petron's capital stock, waived its right of first offer to purchase AOC's interest in Petron. Eventually, SEA Refinery Holdings B.V. ("SEA BV"), a company incorporated in the Netherlands and owned by funds managed by the Ashmore Group, acquired AOC's 40% interest in Petron in July 2008. Ashmore complied with the requirements of mandatory tender offer under the Code.

On October 6, 2008, PNOC informed SEA BV and Petron of its intent to dispose of its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was purchased by SEA Refinery Corporation ("SRC"), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV also sold a portion of its interest in Petron equivalent to 10.1% of the issued shares to SRC.

On December 24, 2008, SMC and SEA BV entered into an Option Agreement (the "Option Agreement") granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary SRC. The option may be exercised by SMC within a period of two (2) years from December 24, 2008. Under the Option Agreement, SMC would have representation in the Board of Directors and the Management of Petron. In the implementation of the Option Agreement, SMC representatives were elected to the Board of Directors and appointed as senior officers on January 8 and February 27, 2009.

At its April 29, 2010 meeting, the Board of Directors endorsed the amendment of the Company's Articles and the Company's By-Laws increasing the number of directors from 10 to 15 and quorum from six (6) to eight (8). The same was approved by the stockholders during their annual meeting on July 12, 2010. The amendment was approved by the SEC on August 13, 2010.

On April 30, 2010, SMC notified SEA BV that it would exercise its option to purchase 16,000,000 shares of SRC from SEA BV, which was approximately 40% of the outstanding capital stock of SRC. SRC owned 4,696,885,564 common shares of Petron, representing approximately 50.1% of its issued and outstanding common shares. SMC conducted a tender offer for the common shares of Petron as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV under the Option Agreement. A total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, equivalent to approximately 1.97% of the issued and outstanding common stock of Petron. On June 15, 2010, SMC executed the Deed of Sale for the purchase of the 16,000,000 shares of SRC from SEA BV.

On July 30, 2010, PCERP bought 2,276,456,097 common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA BV. The purchase and sale transaction was executed on the board of the PSE at the price of ₱7.20 per share.

SMC purchased additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE on August 31, 2010. Said shares comprise approximately 16% of the outstanding capital stock of Petron.

On October 18, 2010, SMC also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.006% of the outstanding capital stock of Petron.

On December 15, 2010, SMC exercised its option to acquire the remaining 60% of SRC from SEA B. V. pursuant to the Option Agreement. With the exercise of the option, SMC became beneficial owner of approximately 68% of the outstanding and issued shares of stock of Petron. As such, on that date, SMC obtained control of SRC and Petron.

On January 24, 2012, PCERP sold 695,300,000 of its common shares in the Company through the PSE. On December 5, 2012, March 27, 2014, and August 19, 2014, PCERP further sold 195,000,000 common shares, 470,000,000 common shares, and 380,000 common shares, respectively, through the PSE. On December 5, 2014, PCERP acquired 195,000,000 PCOR shares through the PSE. PCERP to date holds common shares comprising 7.80% of the outstanding common stock of the Company.

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

(ii) Subsidiaries

The direct subsidiaries of the Company as of December 31, 2014 are listed below:

- **New Ventures Realty Corporation** ("NVRC") is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter's operation. NVRC's wholly-owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed "Las Lucas Construction and Development Corporation" upon approval by the SEC in September 2009. In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation. In 2013, NVRC further acquired 100% of South Luzon Prime Holdings Incorporated, MRGVeloso Holdings, Inc. and Abreco Realty Corp.

- **Petrogen Insurance Corporation** ("Petrogen") is a wholly-owned subsidiary of Petron incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers.

- **Overseas Ventures Insurance Corporation Ltd.** ("Ovincor") was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the Petron Bataan Refinery, the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- **Petron Freeport Corporation** ("PFC"; formerly, "Petron Treats Subic, Inc.") was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority ("SBMA") as a Subic Bay Freeport ("SBF") enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.

- **Petron Marketing Corporation** ("PMC") was incorporated on January 27, 2004 with the same business purpose as PFC but operates outside the SBF. PMC is a wholly-owned subsidiary of Petron. PMC operates some service stations of Petron and holds the franchise to nine (9) fastfood stores. PMC launched Treats as the secondary retail store brand found in Petron service stations in 2014.

- **Limay Energen Corporation** ("LEC") was incorporated on August 23, 2010. LEC became wholly owned by Petron in January 2012. 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.

- **Petron Singapore Trading Pte. Ltd.** ("PSTPL") was established in 2010 as Petron's trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore's Global Trader Program, which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron's crude selection.

- **Petron Global Limited** ("Petron Global") is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.

- **Petron Finance (Labuan) Limited** ("Petron Finance") is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.

- **Petrochemical Asia (HK) Limited** ("PAHL") is a holding company incorporated under the laws of Hong Kong over which the Company obtained control in January 2013.

- **Petron Oil & Gas Mauritius Ltd.** ("POGM") is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

  Petron Oil & Gas International Sdn Bhd ("POGI") is a subsidiary of POGM incorporated under the laws of Malaysia, which, on March 30, 2012, acquired 65% of the issued and outstanding share capital of Esso Malaysia Berhad ("EMB"), a publicly-listed company in Malaysia, and 100% of the issued and outstanding share capital of ExxonMobil Malaysia Sdn Bhd and ExxonMobil Borneo Sdn Bhd. POGI subsequently acquired an additional 8.4% of the voting shares of EMB in May 2012 pursuant to a mandatory takeover offer. On April 23, 2012, the Companies Commission of Malaysia ("CCM") approved the change of name of ExxonMobil Malaysia Sdn Bhd to "Petron Fuel International Sdn Bhd" ("PFISB") and of ExxonMobil Borneo Sdn Bhd. to "Petron Oil (M) Sdn Bhd." ("POMSB"). Thereafter, on July 11, 2012, the CCM approved the change of name of EMB to "Petron Malaysia Refining & Marketing Bhd." ("PMRMB").

  PMRMB, PFISB and POMSB (collectively, the "Petron Malaysia Companies") are companies also incorporated under the laws of Malaysia and are engaged in the downstream oil business in Malaysia. The Petron Malaysia Companies operate nine (9) product depot and terminals and a network of approximately 560 retail service stations in the country. The rebranding and upgrading of the service stations to the Petron brand is expected to be completed in 2015. PMRMB owns and operates the 88,000 bpd Port Dickson Refinery ("PDR"). The PDR produces a range of products, including gasoline, diesel, jet fuel, LPG and low sulfur waxy residue ("LSWR").

  The Petron Malaysia Companies' fuels marketing business in Malaysia is divided into retail business and commercial sales. The retail business markets fuels and other retail products through its network of service stations located throughout Peninsular and East Malaysia. The Petron Malaysia Companies' commercial sales are divided into four (4) segments: industrial and wholesale, aviation fuels, LPG and lubricants/specialties. The industrial segment sells diesel and gasoline fuels to mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors while the Malaysian wholesale segment consists of sales, primarily of diesel, gasoline and kerosene, to company-appointed resellers, which sell the Company's products to industrial customers. The aviation group mainly sells to key airline customers which operate at the Kuala Lumpur International Airport where the product is supplied through the pipeline connected to the Port Dickson Terminal. The Petron Malaysia Companies market LPG in 12-kg and 14-kg cylinders for domestic use. In April 2012, the Petron Malaysia Companies established a lubricants and specialties segment to introduce Petron lubricants and greases into the Malaysian market. Automotive lubricants are sold through the service stations and appointed distributors in Malaysia. PMRMB exports LSWR and naphtha from the PDR.

The above-named subsidiaries of the Company have no plans of engaging in lines of products or services other than those provided in connection with the promotion and enhancement of the business of the Company.

The Company and its subsidiaries are not subject of any bankruptcy, receivership or similar proceedings.

(iii) Operating Highlights

Sales

Petron's 2014 sales volume to the domestic market grew by 1,195 MB or 2.8% driven mainly by growth in the retail sector. The retail sector which accounts for about 40% of sales grew by close to 6%. Growth is attributed to new station builds, aggressive dealer account solicitation, various marketing programs that attracted more motorists to Petron stations and supported by a robust economy. These marketing programs include promotions such as the *Fast Gas Fast Prize* promotion and the various cards programs - *Petron Fleet Card*, *Petron Value Card* and the recently launched *Super Driver Card* catering specifically to public utility drivers.

Sales of LPG, which accounts for about 10% of total, grew by about 5% sustained by expansion of dealer branch stores and retail outlets and acquisition of major industrial accounts (*e.g.*, new malls).

On the other hand, sales to the industrial sector, about 50% of total sales, declined by about 0.3% as the Company optimized sales for jet fuel and industrial fuel oil. The Company, however, continued to hold the largest share of the industrial market.

Refining

- **Upgrade to Full Conversion**

  The Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") was mechanically completed in 2014. Petron's biggest project to date upgraded the Petron Bataan Refinery to a full conversion refining complex, where all fuel oil is converted to higher valued products – gasoline, diesel, jet fuel and petrochemicals. This makes the Petron Bataan Refinery comparable to highly complex refineries worldwide. Currently, the RMP-2 facility is still undergoing performance guarantee test run facilitated together with the process technology licensors to establish the capabilities of the plant against the guaranteed yields and product qualities. RMP-2 will be in full commercial operation by the second quarter of 2015 after the completion of the test run.

- **Sixth Consecutive Integrated Management System ("IMS") Certification**

  The Petron Bataan Refinery sustained its IMS certification for the sixth year after it successfully passed the Environmental Management System ("EMS") recertification on June 4, 2014 and the Quality Management System ("QMS")/Occupational Health and Safety Management System ("OHSMS") surveillance audits on June 9 – 11, 2014. TUV SUD PSB Philippines Inc. recommended the recertification of the EMS of the Petron Bataan Refinery for 2014-2017 following its compliance with the international standard ISO 14001:2004 and its maintenance of its QMS and OHSMS certificates conforming to the international standards of ISO 9001:2008 and BS OHSAS 18001:2007 and which are valid until June 4, 2015.

Product Supply and Distribution

The Company continues to implement programs to ensure product availability and timely supply such as the program managing station inventory, adequate number of tank trucks and marine vessels and a system that allows nearby depots to support requirements of other depots in case of calamities.

Human Resources

Management recognizes that an organization that is equipped with the right mix of characteristics and skills is key to its progress and successes. With this in mind, the Company implements various human resource programs responsive to the evolving needs of an expanding organization. The Company implements various training and development programs, continues to strengthen the leadership and management succession program, develops organizational structures that will adapt to expansion initiatives and maximize workforce productivity and cultivates greater employee commitment through optimal rewards for employees' performance.

Health, Safety and Environment ("HSE")

The Company's HSE programs continue to be an important element in the operations of its facilities. HSE programs of the Company include the following:

- **Inspection/Audit/Training.** To ensure safety and emergency preparedness of its various facilities, the Company conducts multifunctional audits and safety inspections of the depots/terminals, service stations and third party LPG filling plants. The Company participates in industry-wide oil spill response exercises through service provider WISE Philippines. Periodic inspections of firefighting equipment, emergency drills and exercises are conducted at the Petron Bataan Refinery and the depots/terminals nationwide to enhance competency and responsiveness in addressing emergencies and disasters. A review of the different depot/terminal operations and procedures is conducted to ensure that safety is always inculcated in these activities. Safety seminars/trainings are also continuously being conducted for various stakeholders in the Company's operations to ensure that all imbibe a safety mindset.

- **HSE Systems**

    a. *Stations*. In 2014, the Safety Management System for service stations was launched with the objective of elevating the level of safety awareness among the service station dealers and their employees and workers.

    b. *Depot/Terminals*. A total of 32 locations are covered by ISO 9001:2008 certification. Twenty-nine locations had been certified to the IMS that includes ISO 9001:2008, ISO 14001:2004, and ISO18001:2007. Furthermore, all 17 depots with pier facilities are currently compliant with the International Ship and Port Facility Security Code ("ISPS Code") as certified by the Office of the Transport Security under the DOTC. The ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. Petron's shipping ports for both domestic and international vessels are ISPS-certified.

    c. *Refinery.* The Petron Bataan Refinery continues to conform with the international standard of Quality (ISO-9001:2008), Environment (ISO-14001:2004), and Health and Safety (OHSAS-18001:2004).

With its annual safety programs, the Company achieved several milestones and recognitions from various government agencies for the year 2014. Depot & Plant Operations achieved a attained Zero Loss Time Incident in all of Petron's 32 depots and terminals as well as posting a combined record of 60 Million Safe-Man-hours Milestone covering the whole division and its contractors on September 24, 2014, with the total safe man hours for 2014 totaling 17,640,267.

Petron garnered four (4) awards and recognitions during the 9th *Gawad Kaligtasan at Kalusugan* Awards in October 2014 given by the Department of Labor and Employment ("DOLE"). Petron won the champion and bronze awards for the individual category. Under the institutional category, the Legazpi Depot was given the Silver award while the Rosario Depot received the Bronze bronze. Nasipit, Tacloban and Gasul San Fernando Depots also qualified as finalists for the institutional category. The Rosario Depot, the Davao Depot and the Tagoloan Depot were the recipients of the Tripartite Certificate of Compliance with Labor Standards for this year. Gasul San Fernando was also conferred the Child Labor Free Establishment Award and the Most Fire Safety Conscious Workplace Award for the second consecutive year.

Corporate Social Responsibility ("CSR")

Alongside attainment of business goals, the Company also puts equal importance to meeting its social and environmental agenda. Fueling HOPE (Helping Filipino Children Overcome Poverty Through Education) is its main guidepost and *Tulong Aral* its flagship program. The Company also implements programs on environmental sustainability and those that cater to communities near Company facilities.

- ***Tulong Aral ng Petron***. In partnership with the Department of Social Welfare and Development ("DSWD"), the Department of Education ("DepEd") the Philippine Business for Social Progress and the World Vision Development Foundation, the Company continued its *Tulong Aral ng Petron* ("Tulong Aral"), a long-term, strategic initiative that helps send poor children to school, keep them there and make sure they learn. *Tulong Aral* has scholarship programs for elementary, high school and college students.

  At the end of 2014, *Tulong Aral* ad about 2,000 scholars: 1,178 elementary scholars in 21 partner schools in the National Capitol Region and 540 scholars in seven (7) partner schools in Mindanao. In 2014, Tulong Aral was extended to Petron's major facilities with 300 Grade One scholars in Rosario, Cavite and Bacolod City. The scholars continued to enjoy the benefits of Petron's send-a-child to school program, including the provision of books, school supplies, shoes and uniforms; daily meal allowances for children, as well as capability building and livelihood programs for parents. Eight hundred forty-one elementary and 87 high school scholars graduated in March 2014.

  A total of 449 children are receiving scholarships to go to high school in 22 public schools in Metro Manila. For the school year 2014-2015, Petron sponsored 41 college scholars pursuing different degrees from various academic institutions, the qualified of whom can eventually earn the opportunity to be employed by Petron.

- ***Petron-AGAPP Schools***. Petron continued to sponsor the establishment of classrooms called *Silid Pangarap* for the pre-school and kindergarten level in partnership with AGAPP ("Aklat, Gabay, Aruga Tungo sa Pag-angat at Pag-asa") Foundation and San Miguel Foundation. These classrooms also serve as mini-libraries. Since 2011, Petron had so far inaugurated and turned over 20 schools or 40 classrooms in Bataan, Samar, Cavite, Cebu, Negros Oriental, Leyte and some parts of Mindanao.

- **Other Education-Related Programs**

    a. *Basa Pilipinas (Read Philippines).* This is a partnership with DepED and the United States Agency for International Development to improve the reading skills of one million early grades students and provide technical assistance to DepEd on the language and literacy component for Grades 1 to 3 in Ilocos Region and in Central Visayas.

    b. *Youth in Entrepreneurship and Leadership Development Program (9th year)*. One hundred third year students of the Muntinlupa Business High School spend their summer at certain Petron stations to learn about the operations at the forecourt and back office and the rudiments of food service.

    c. *Scholarship Program of the Petron Bataan Refinery*. As of December 31, 2014, 163 students were granted financial assistance under the Petron Scholarship Grant and Special Recruitment Program.

- **Promotion of Environmental Sustainability**

    a. *Integrated Coastal Management Program*. This is a partnership with the Provincial Government of Bataan and the United Nations Development Programme's Partnerships on Environmental Management for the Seas of East Asia or PEMSEA aims to assist the Bataan's local government units in developing and implementing their respective zoning plans in accordance with the Bataan Coastal Land and Sea Use Zoning Plan and the Bataan Sustainable Development Strategy.

    b. *Boracay Beach Management Program*. This is in partnership with the Municipality of Malay, Aklan, SMC and the Boracay Foundation, Inc. with major activities such as: 1) beach protection; 2) mangrove rehabilitation; 3) coral reef restoration, and 4) information education and communication.

    c. *Adopt-An-Estero/Water Program*. In 2014, Phase 2 of the rehabilitation (dredging and rehabilitation of the creek banks and easements and repair of bike lanes) of the Concepcion Creek in Marikina City was completed. The 3.1-kilometer stretch of the Concepcion Creek is a major tributary of the Marikina River and identified by the Marikina City Environmental Management Office as Petron's pilot site for the Adopt-An-Estero/Water Program. Petron is also committed to have its network of facilities nationwide adopt rivers and other water bodies within the proximity of their respective areas. A total of nine (9) Petron depot locations have instituted their own Adopt-An-Estero activities.

    d. *National Greening Program*. The Company had tree and mangrove planting activities in all its terminals and depots in support of DENR's goal of planting 1.5 billion trees from 2011 to 2016.

- **Community-Based Programs.** Petron also has community-based programs that benefit residents close to Petron facilities (*e.g.,* livelihood assistance program in Bataan, community health center in Pandacan).

- **Responding to Crises.** Petron continues to live up to its commitment of helping families affected by various disasters. In partnership with SMC Foundation and Habitat for Humanity Philippines, Petron is supporting the building of houses to help 85 families devastated in 2013 by super typhoon Yolanda and the Visayas earthquake.

Petron Malaysia

The Petron Malaysia Companies have completed the upgrading of the product terminals to comply with the B7 biodiesel requirement. This is in line with the government's thrust of providing cleaner and more environment friendly fuels to the consumers. The Petron Malaysia Companies also completed the rebranding and modernization of the more than 100 tankers which transport products throughout the country. As part of the rebranding program, two (2) card programs, *Petron Miles* loyalty card and Petron Fleet Card with microchip technology, were launched.

(2) Business of the Company

(i) Principal products or services and their markets

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, LPG, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts and petrochemicals– benzene, toluene, mixed xylene, propylene and polypropylene. Exports include naphtha and petrochemicals. When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are the reseller (service station), industrial, LPG and lube trades. Petron sells its products to both industrial end-users and through a nationwide network of service stations, LPG dealerships and lube outlets. It also supplies jet fuel at key airports to international and domestic carriers.

The Company also continues to expand its non-fuel businesses. It holds franchises of major local food chains, leases space to other consumer services, food kiosks and restaurants to give its customers a one-stop full service experience at the service station. It continues to have a tie-up with the San Miguel Group for the San Mig Avenue convenience stores at the stations. In 2014, it relaunched the *Treats* store as the secondary retail store brand found in Petron service stations.

(ii) Percentage of sales or revenues by foreign sales

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2012 to 2014:

	Domestic	Exports/International	Total
2012, in million pesos	265,470	159,325	424,795
2012, in percentage	62%	38%	100%
2013, in million pesos	264,445	199,193	463,638
2013, in percentage	57%	43%	100%
2014, in million pesos	276,654	205,885	482,539
2014, in percentage	57%	43%	100%

(iii) Distribution methods of products or services

Petron's bulk petroleum products are refined from crude oil at the Petron Bataan Refinery in Limay, Bataan. From the Petron Bataan Refinery, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts. Products may also be sourced from depots operated by other oil companies with whom Petron has joint operations, rationalization and/or product supply agreements.

Lubes and greases in various packages are transported via container vans to bulk plants and terminals outside Metro Manila. Petron lube distributors are also established to sell these products.

Petron has a nationwide network of LPG retail dealerships and outlets. Service stations also carry *Gasul* products and accessories.

(iv) New products or services

The Company's new products are described below.

- **Multi-Vehicle Automatic Transmission Fluid**

  This product meets US, Europe, and Asian Original Equipment Manufacturers' specifications.

- **Engine Oils for Petron Malaysia**

  a. Blaze Racing Premium Multi-grade 15W-40 API SM
  b. Blaze Racing Multi-grade 20W-50 API SL
  c. Rev-X Multi-grade 20W-50 API CF
  d. Rev-X Multi-grade 20W-50 API CF-4

- **Engine Oils for China**

  a. Blaze Racing Premium Multi-grade 15W-40 API SL
  b. Blaze Racing Multi-grade 15W-40 API SJ
  c. Blaze Racing Multi-grade 15W-40 API SG
  d. Rev-X Multi-grade 20W-50 API CF-4
  e. Rev-X Multi-grade 15W-40 API CH-4
  f. Rev-X Multi-grade 15W-40 API CG-4
  g. Rev-X Multi-grade 15W-40 API CF-4

- **Food-Grade Lubricants**

  Petron developed the following food-grade lubricants that meet the National Sanitary Foundation H1 category and can be used in food-processing environments where there is a possibility of incidental food contact:

  a. Hydraulic Oil ISO VG 32
  b. Hydraulic Oil SI VG 68
  c. Gear Oil ISO VG 320
  d. Grease NLGI 2

- **Motorcycle Oil 10W-30**

  This oil caters to the requirement of motorcycles with automatic transmission. This product meets JASO MB specifications of the Japanese Engine Oil Standard Specification Panel and has a viscosity grade of SAE 10W-30.

- **Hydrotur SW 220**

  Hydrotur SW 220 is a mineral-based oil designed specifically for the lubrication of slides and ways of various machine tools to avoid stick-slip and frictional occurrences during operation.

- **Quality Upgrade of Rev-x HD 40**

  Petron Rev-x HD 40 is a heavy duty, high quality diesel engine oil recommended for use in engines operating under severe operating conditions. It is suitable for passenger-type vehicles such as jeepneys, buses, AUVs, and mixed commercial fleets. Petron enhanced the performance and quality level of Rev-x HD 40 to meet the API CF classification of the American Petroleum Institute.

- **Petromar HF Marine Oils**

  Petromar HF Marine Oils are designed for engines using low quality fuels that will allow ship owners and power plant operators to optimize their operations using low quality but less expensive fuel oils.

(v) Competition

Petron operates in a deregulated oil industry along with more than 90 other industry players. With several players sharing in the market, competition is intense. Retail and depot network expansion, pricing, various marketing programs are being employed to gain a bigger share of the domestic market.

As of year-to-date June 2014 (based on published industry data from the DOE and excluding lubes and greases), the new players had a collective market share of about 26%.

Further adding pressure to competition are illegal trading practices (*e.g.*, "bote-bote" retailing, illegal refilling and under declaration of value or quantity of imports) that have resulted in lost tax revenues for the government.

(vi) Sources and availability of raw materials and the names of principal suppliers

In 2014, Petron purchased all its term and spot crude requirements through its wholly-owned subsidiary, PSTPL. Majority of the crude purchase are under a term contract. Regional crude such as Kikeh was sourced from Petroliam Nasional Berhad also under a term contract. Another crude, East Siberian Pacific Ocean blend, was sourced on spot basis from different companies.

LPG imports were directly awarded to Shell International Eastern Trading Company for the period August 2013 to July 2014 and through PSTPL for the period August to October 2014. For other finished product imports, Petron purchased its requirements in 2014 through PSTPL. Jet A-1 term contracts were concluded for January to August 2014 and diesel for February to August 2014. Local purchase contracts were also awarded such as LPG to Liquigaz and gasoline and diesel to Filoil for the period January to December 2014.

The Company is the sole buyer of all the ethanol produced by San Carlos Bioenergy, Inc. pursuant to a 2008 ten-year supply contract. The balance of the Company's ethanol requirements is sourced from other local ethanol producers and imports. Ethanol is blended with gasoline to comply with the current requirement under the Biofuels Act of 2006.

(vii) Dependence on one or a few major customers and identity of any such major customers

Petron and its subsidiaries do not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue.

(viii) Transactions with and/or dependence on related parties

Petron, certain of its subsidiaries, associates, and joint venture and SMC and its subsidiaries purchase products and services from one another in the normal course of business.

It is the policy of the Company that transactions with related parties are on an arm's length basis in a manner similar to transactions with non-related parties. Related party transactions are made at normal market prices and terms. To ensure that this policy is implemented, the Company undertakes an assessment at each financial year by examining the final position of the related party and the market in which the related party operates.

Described below are transactions of Petron with related parties:

1. Petron has existing supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the bunker, diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.

2. Petron purchase goods and services, such as those related to construction, information technology, shipping and power, from various SMC subsidiaries.

3. Petron entered into a lease agreement with San Miguel Properties, Inc. ("SMPI") for office space covering 6,802 square meters. The lease, which commenced on June 1, 2014, is for a period of one (1) year and may be renewed in accordance with the written agreement of the parties.

4. Petron also pays SMC for its share in common expenses such as utilities and management fees.

5. Petron has long-term lease agreements with NVRC covering certain parcels of lands where some of its depots, terminals and service stations are located.

6. Petron partly retails its fuel products through its subsidiaries, PMC, PFC, and PSTPL, as well as lubes through PFSIB.

7. Petron obtains insurance coverage from Petrogen, which in turn obtains reinsurance coverage from Ovincor and other local reinsurers.

8. Petron made certain advances to PCERP for investment opportunities.

9. Petron has an existing trading agreement with PSTPL for the procurement of crude oil, and trading of finished petroleum products and other materials such as ethanol, coal, and additives.

10. Petron engaged PSTPL to perform the chartering function such as the renewal and negotiation of contract of affreightments and commodity risk management via hedging transactions.

11. NVRC and SMC Powergen Inc. ("SMC Powergen") entered into a sublease agreement for a portion of the lands on which the Petron Bataan Refinery and SMC Powergen's power plant is located.

12. NVRC acquired parcels of land from SMPI and vice versa.

(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements

Approved Trademark Registrations. Petron has trademark registrations for a term of 20 years for its Petrogrease, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Gearkote, Cablekote, REV-X superdiesel Multigrade, "AS" Petron, Grease Solve, Petrokote, Petron 2040, Petron XD3, Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradename), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil, Oil Saver, DCL 100, Milrol, Petropen, Petron GST, Petron with XCS, With XCS, Super DC, LPG Gasul Cylinder 2.7 kg. Petromul CSS-1, New Petron Logo, Power Booster, Zerflo, TDH 50, Automatic Transmission Fluid, Petrotherm 32, Petrosine, Petron HDX, Petron TF, Petron, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Lubritop, Antimist, Molygrease and Petron GX.

Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Extra, Sprint 4T, Xpert Diesel Oils, Penetrating Oil, Solvent 3040, Ultron Race, Ultron Touring, Lakbay Alalay, Blaze, Clean 'n Shine, Fuel Hope, Fuel Success, Fuel X Fuel Customer Experience, Pchem, Petron Farm Trac Oil for Farm Equipment, Petron Freeport Corporation, Petron Marketing Corporation, PetronConnects, Treats (for bottled water), Tulong Aral ng Petron & Device, Ultimate Release from Engine Stress, Xpert sa Makina X-tra ang Kita, "Your friend on the Road", Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Xtend, Car Care & Logo,Go for the Xtra Miles, e-fuel, Rider, Enduro, Extra, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED. Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED. Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, Bulilit Station, Bulilit Station(Gasoline Station), How far can you go on one full tank these days?, Fuel Journeys, Petron Lakbay Pinoy, Petron PInoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Econo, Elite, Pantra, Limay Energen Corporation, Racer Maximum Performance, Petrolene, Petron Value Card and Device, Pstore, Pmart, Pshop, Go Petron! Get Rewards & Benefits, TSI and Device, Footprints Inside a Sphere & Device, Lakbay Alalay Para sa Kalikasan, Everyone's Vision & device, Petron Super Xtra Gasoline, Xtra Advance, Petron Ronnie Mascot in Seatbelt & device, Petron Super Driver, Maxi Gas, Xtra Exceed, Xtra Ultra, Xtra Prime, Xtra Miles, Pinoy HP Gasoline, Xtra Excel, UnliPower Saver Gasoline, Ultramax Gasoline, Ecomax Gasoline, PMax Gasoline, Pharmacy Plus, Triangle Device, Boomerang Device, Ronnie Mascot, and AR Scan, View it & device, Seat Belt Lives, See It & device, Privilege Miles Card & device, Petron Fleet Card & device, Blaze 100 Octane Euro 4 & device, Aim here & device, Focus here & device, AR View & device, AR Focus & device, Pay with Points Save your Cash, AR Spot & device, Scan It & device, Road Safety & device, Miles, Petron Chinese Name (flag type), Petron Chinese Name (long type), Super Tsuper Gift, and App device are registered for a term of 10 years.

Pending Trademark Registration Applications. Petron has pending applications for registration of the following trademarks: Rover, Petron Blaze 100, Sagip Alalay, Petron Canopy Fascia, Petron XCS3, Petron XCS3 Triple Action Premium Unleaded, Champion Gasoline, Euro 4 (stylized), Mix & Treats device, Treats Plus & device, Everyone's Treats, Everyone's Shop & device, Super Treats & device, e-Pay, Gasulito, REV-X, Accident Insurance & device, Stylized P & device, Towing & Roadside Assistance device, Petron Blaze Spikers, Thermal Stress Stabilizing System, Thermal Control System, Dynamic Cleaning Technology, Miles Better, Your Fleet Your Rules, Xtra Advance Euro 4 & Device, Petron Super Xtra Gasoline Euro 4 & Device, Diesel Max Euro 4 & Device, Turbo Diesel Euro 4 & Device, XCS Euro 4 & Device, and Fast Gas Fast Prize.

Petron also has registered and pending trademarks in Malaysia, Indonesia, Cambodia, Thailand, Myanmar, Australia, China, United Kingdom, India, Japan, Republic of Korea, Singapore, Hong Kong, China and Saudi Arabia. The Company has filed 176 trademark applications in Malaysia relating to its Malaysian operations. It has obtained copyright protection for the stylized letter "P" and has registered trademarks in Malaysia, including the "*Petron (Class 9)*", "*Petron Logo*", "*Gas Miles*", "*Gasul*", "*Fiesta Gas*", "*Energen*", "*Petron Plus (Class 9)*", "*Perks*", "*Miles*", "*Propel*", "*XCS*", "*Petromate*", "*Hydrotur*", "*Miles with P-Logo*", "*MILES with P Logo and 'Privilege Miles Card' words*", "*Petroil*", "*Fuel Journeys*", "*Better by Miles*", "*Petron Cares*", "*DCL 100*", "*Petromar*" , *"Energy", "Treats with Crocodile Logo", and "Petron Greenfuel", "Propel", "Kedai Mart with P logo", "Rider", "Rider 4T", "Petrolaysia", "Prime", "Petron with Canopy Fascia logo", "Petron Racing", "Petron Cares", and "Fuel Journeys"*.

Copyrights. Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter "P" and two (2) flames, Powerburn 2T, Petron New Logo (22 styles), Philippine Card Designs and Malaysian Card Designs, and Petron font. Copyrights are protected during the lifetime of the creator and for 50 years after his death.

Utility Models. Petron has registration for the following utility models: (i) Carbon Buster (process) and (ii) Carbon Buster (composition). The term of the utility model is seven (7) years from date of filing of the application.

(x) Government Approval of Principal Products or Services

Government approval of Petron products and services is not generally required. Petroleum products, both locally refined and imported, however, must conform to specifications under the Philippine National Standards. Importations of petroleum products and additives are reported to the DOE, in accordance with the Downstream Oil Industry Deregulation Act of 1998 and its implementing rules and regulations. Clearances are secured from concerned government authorities for importations of restricted goods. The supply of products or services to government and government agencies undergo bidding process in accordance with law.

(xi) Effect of existing or probable government regulations on the business

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

- Biofuels Act of 2006 (the "Biofuels Act"). The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/cocomethyl ester ("CME") components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots.

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

- Compliance with Euro 4 standards. The DENR issued in September 2010 Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. The oil industry is currently conducting discussions on the fuel specification requirements to comply with the DENR administrative order in 2016. The RMP-2 allows the Company to locally produce Euro 4-compliant fuels before the 2016 mandate.

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

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

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

- Anti-Competition Bill

  The Philippine Senate recently approved its version of an Anti-Competition Bill that seeks to check on industries' anti-trust practices including anti-competitive conduct (*e.g.*, cartelization, monopolization) and abuse of dominant position. The Philippine House of Representatives is conducting interpellations on its version.

(xii) Estimate of the amount spent during each of the last three (3) fiscal years on research and development activities:

The Company's Research and Development ("R&D") is responsible for all product development that complies with government laws and regulations such as the Clean Air Act, the Biofuels Act, and the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990. Other drivers of product innovations are the requirements of original engine manufacturers and the latest technological trends in the industry.

R&D spent a total of ₱64.42 million in 2014, higher than the previous year's expense of ₱59.23 million. Expenses in 2012 amounted to ₱48.61 million.

(xiii) Costs and effects of compliance with environmental laws

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. In 2014, the Company spent a total of ₱503 million for treatment of wastes, monitoring and compliance, permits and personnel training at the Petron Bataan Refinery.

(xiv) Total number of employees

As of December 31, 2014, the Company had 2,950 employees, with 2,338 employees in the Company (comprising one chairman, one president, 24 vice presidents and assistant vice presidents, 1,465 managerial, professional and technical employees, and 847 rank-and-file employees); 474 employees of the Company's Malaysian operations; seven (7) in PSTPL; and 131 in PMC and PFC. The workforce may further increase in the ensuing 12 months due to the Petron Bataan Refinery expansion project.

Petron has CBA's with its (3) (3) unions, namely: (i) Bataan Refiners Union of the Philippines ("BRUP"), which is affiliated with the Philippine Transport and General Workers Organization; (ii) Petron Employees Labor Union ("PELU"), and (iii) Petron Employees Association, which is affiliated with the National Association of Trade Unions ("PEA-NATU"). BRUP's CBA covers the period January 1, 2014 to December 31, 2018. PELU's CBA is in effect from January 1, 2014 to December 31, 2018. The PEA-NATU's CBA, covering the period from January 1, 2012 to December 31, 2014, is currently under negotiations.

In addition to the statutory benefits, the Company provides medical and life insurance, vacation/sick and emergency leaves, and computer and emergency loans to employees. It has a savings plan wherein an eligible employee may contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a corresponding maximum of 5% to the member-employee's account in the savings plan.

(xv) Description of Property

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. This refinery has a crude distillation capacity of 180,000 barrels per day ("BPD"). It has three (3) crude distillation units, (2) vacuum pipestill units, a delayed coker unit, two (2) catalytic cracking units, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, three (3) naphtha hydrotreaters, two (2) kerosene merox treater, three (3) gas oil hydrotreater units, coker gas oil hydrotreater, four (4) LPG treaters, two (2) selective hydroprocessing units, an isomerization unit, benzene, toluene and mixed xylene recovery units, two (2) propylene recovery unit, four (4) sulfur recovery unit, a hydrogen production unit and hydrogen recovery facility, a nitrogen plant, two (2) waste water treatment facilities, four (4) sour water facilities, a desalination facility, eight (8) steam generators, five (5) turbo generators, four (4) cooling towers, a reverse osmosis unit, flare facilities, bulk asphalt receiving facilities, several crude storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude carriers.

Petron also operates an extensive network of terminals, plants and LPG plants which are located in Luzon, Visayas and Mindanao. Its terminals, depots and plants are in Limay, Bataan; Pandacan, Manila; Mabini, Batangas; Mandaue City, Cebu; Poro Point, San Fernando, La Union; Ugong, Pasig City; Subic, Zambales; Aparri, Cagayan; Rosario, Cavite; Pasacao, Camarines Sur; Puerto Princesa, Palawan; Lapuz, Iloilo City; Bacolod City, Negros Occidental; Tagoloan, Misamis Oriental; Sasa, Davao City; Legaspi City, Albay; San Fernando City, Pampanga, Navotas, Metro Manila; Amlan, Negros Oriental; Culasi, Roxas City; Linao, Ormoc City, Leyte; Anibong, Tacloban City; Isabel, Leyte; Tagbilaran City, Bohol; Iligan City, Lanao del Norte; Jimenez, Misamis Occidental; Bawing, General Santos City; Nasipit, Agusan del Norte; and Zamboanga City. Its sales offices in Luzon are located in Tondo, Manila; Calapan, Oriental Mindoro; San Jose and Mamburao, Occidental Mindoro; and Masbate, Bicol.

Petron has aviation depots at JOCASP-NAIA, Pasay City and Mactan, Cebu and airport installations at Laoag City and Davao City.

The Company entered into commercial leases with the PNOC for parcels of land occupied by the Petron Bataan Refinery, depots, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Petron Bataan Refinery for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). In 2015, the Company also entered into another 25-year lease agreement with PNOC effective August 1, 2014 for additional lots near the Petron Bataan Refinery for its expansion projects. Expenses relating to the PNOC leases amounted to ₱156.3 million in 2014.

Petron anticipates that it may lease desirable lots from NVRC and third parties for development as service stations and for its refinery expansion projects in the next 12 months.

(3) Major Risks Involved

(i) Risk Management Framework and Process

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

The Company's risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As Petron's operation is an integrated value chain, risks emanate from every process and some can cut across divisions. The results of these activities flow up to the Management Committee and eventually the Board through the Company's annual Business Planning process.

Oversight and technical assistance is likewise provided by corporate units with special duties. The Risk and Insurance Management Group is mandated with the overall coordination and development of the enterprise-wide risk management process. The Financial Risk Management Unit of the Treasurers Department is in charge of foreign exchange hedging transactions. The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions. The Corporate Technical & Engineering Services Group oversees compliance with the domestic and international standards set for health, safety and environment. The Internal Audit Department is tasked with the implementation of a risk-based auditing. Commodity price risk is a major area being managed by the Commodity Risk Management Department ("CRMD") of the Supply Division, under the guidance of the Commodity Risk Management Committee ("CRMC") composed of cross-functional senior and middle management. The CRMC oversees the long-term and short-term commodity hedging program which includes risk assessment, authorized hedging instruments and hedging tenor. Hedging strategies are developed by the CRMD which also monitors commodity risks, sets controls, and ensures that risk management activities stay within the board-approved limits and parameters approved by CRMC. PSTPL executes the hedging strategies involving crude and product imports and exports on behalf of the Company.

(ii) Major Risks

The Company classifies a risk as major if it assesses the risk event to have both a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2014 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company's operations. These risks were the following:

- Foreign exchange risk arising from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. In addition, starting March 31, 2012, the Group's exposure to foreign exchange risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of the Petron Malaysia Companies 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. Changes in the foreign exchange rate would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.
- The risk of substantial disruptions in the Company's operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of major capital expansion activities. These disruptions may result in injury or loss of life, as well as financial losses should these disruptions lead to product run-outs, facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.
- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company's supply chain, as well as higher financing expenses.
- Regulatory risk, arising from changes in national and local government policies and regulations that may result in substantial financial and other costs for the Company, either directly or indirectly.

Except as covered by the above mentioned specific risks, the Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk. These risk factors either have a low probability of occurring or have an insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.

(iii) Management of Major Risks

(a) Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.
- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through software that monitors financial transactions under the Company's enterprise resource planning system. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

(b) Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in these units can have severe and rippling effects.
- The Refinery Division and the Petron Malaysia Companies have been implementing programs designed to directly promote the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of safety and continuous process improvement.
- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.
- The Company has complied with and has been certified to be compliant with the strictest international standards for quality management system under ISO 9002:1994 in August 1998; and for environmental management system under ISO 14001:1996 in September 2004 and was upgraded and certified to ISO 14001:2004 in October 2006 up to present for its refinery operations. The refining division is currently implementing and maintaining an IMS composed of Quality Management System (ISO 9001:2008); Occupational Health and Safety Management System (OHSAS or ISO 18001:2007); Environmental Management System (ISO-14001:2004), certified and recertified since July, June and May 2009, respectively, up to present.
- A total of 32 locations are covered by ISO 9001 certification where all have migrated to the ISO 9001:2008 certification. As of March 2014, 24 locations had been certified to the IMS that includes ISO 9001:2008, ISO 14001:2004, and ISO18001:2007. The target is to have all the depots certified to the integrated management standards by 2015.
- Furthermore, a total of 18 locations are currently compliant with the ISPS code certified by the Office of the Transport Security under the DOTC. ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. Petron's shipping ports for both domestic and international vessels are ISPS-certified.

(c) Profit margin and cash flow risk

- Margin hedging strategies are used in order to eliminate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future dollar prices of Dubai crude oil and that of a selected product manufactured from the crude. This partially locks in the refining margin of the Company.
- Price exposures are managed through commodity hedging to counter abrupt and significant drops in prices resulting in inventory losses on both crude and petroleum products. Considering that the Company keeps 55 days of crude and product inventories, any drop in price affects profit margin.
- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.
- The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It likewise maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

(d) Regulatory risk

- The Company maintains strong lines of communication with its various counterparties in government and in the public arena, in both local and national levels. The Company uses these lines of communication to identify potential risk factors and respond to these in a proactive manner.
- The Company remains compliant with the various environmental standards set by the government.

(4) Contingent Liabilities

Petron is involved in certain cases, the material of which are discussed below based on information available to the Company as of the date of this information statement:

(a) **Tax Cases**

- **Petron Corporation vs. Commissioner of Internal Revenue**
  SC-G.R. SP No. 204119-20
  Supreme Court
  Date Filed: December 2012

  Background: In 1998, the Company contested before the CTA the collection by the BIR of deficiency excise taxes arising from the Company's acceptance and use of TCCs worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of companies registered with the BOI, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the CA.

  On March 21, 2012, the CA 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 for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by Petron as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, the Company filed its comment on BIR's petition for review on *certiorari*.

  Exposure: ₱1,107,542,547.08 plus 20% annual interest and 25% surcharge from April 22, 1998

  Relief sought on Appeal: The petition for review on *certiorari* filed by the BIR seeks the reversal of the decision of the CTA in favor of Petron, setting aside the BIR assessment in relation to Petron's payments of excise taxes through TCCs.

  Status: The petition for review on *certiorari* filed by the BIR is pending.

(b) **Pandacan Cases**

- **Petron Corporation v. The City of Manila, *et al*.**
  CA-G.R. CV No. 100218
  Court of Appeals
  Date Filed: January 23, 2013

  Background: The City Council passed the Manila Comprehensive Land Use Plan and Zoning Regulations of 2006 ("Ordinance No. 8119"), which was approved by Mayor Jose L. Atienza on June 16, 2006. Ordinance No. 8119 reclassified the area of the Pandacan depots from Industrial to High Density Residential/Mixed Use Zone. Ordinance No. 8119 gave non-conforming establishments, including the oil depots, seven (7) years to phase out or relocate.

  Shell and Chevron filed their complaint questioning Ordinance No. 8119. The Company, which was not allowed to intervene, filed a separate complaint on February 8, 2007, questioning the validity of the Manila City Ordinance No. 8119.

  On August 24, 2012, the Regional Trial Court of Manila ("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 of Manila upheld the validity of all other provisions of Ordinance 8119. Petron filed a notice of appeal on January 23, 2013. In compliance with the order of the CA dated April 15, 2013, 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.

  Exposure: No monetary claim. An adverse decision would mean closure of the terminals at Pandacan. However, this case apparently has been rendered moot by the Supreme Court's decision in G.R. Nos. 187836 and 187916 discussed below.

  Relief sought: Nullification of Ordinance No. 8119

  Status: Petron has filed its appellant's brief and reply brief in response to the City of Manila's appellee's brief. The appeal remains pending.

- **Social Justice Society v. Alfredo S. Lim**
  SC G.R. No. 187836 Supreme Court

  Background: This is a petition for prohibition by SJS against Mayor Alfredo S. Lim for nullification of Ordinance No. 8187 which repealed both City Ordinance Nos. 8027 and 8119, effectively allowing the continued operation of the oil depots at Pandacan.

  On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the SC, seeking the nullification of Ordinance 8187. The lawyers of the oil companies have met and would come up with a plan of action, including intervention once the SC directs the City of Manila to comment or gives due course to the petition. There has been no official action from the SC on this latest petition yet. The City filed its Comment on August 13, 2009. Petron filed a motion for leave to intervene dated November 27, 2009 and a comment-in-intervention dated November 27, 2009. The comment-in-intervention was allowed by the SC.

Petron filed a manifestation on November 30, 2010 informing the SC that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron 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 Petron 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), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

This case is consolidated with SC G.R. No. 187916.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Status: The case was decided together with G.R. No. 187916 discussed below.

- **Jose L. Atienza vs. Mayor Alfredo S. Lim**
  SC G.R. No. 187916 Supreme Court

  Background: This is the second petition filed against Ordinance 8187. Former Manila Mayor Atienza filed a petition for certiorari for the nullification of Ordinance No. 8187.

  On June 5, 2009, former Manila Mayor Lito Atienza, represented by the former City Legal Officer, filed his own petition with the SC seeking to stop the implementation of Ordinance 8187. The City of Manila filed its Comment on August 13, 2009.

  Petron filed a manifestation on November 30, 2010 informing the SC that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron 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 Petron 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), Petron 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 SC issued a decision ("November 25 Decision") declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, 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. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by the Company the Supreme Court denied Shell's motion with finality 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."

  Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

  Status: The Resolution dated March 10, 2015 was declared by the SC as final.

(c) **Guimaras Oil Spill**

- **In the Matter of the Sinking of the MT Solar I**
  SBMI No. 936-06
  Special Board of Marine Inquiry

  Background: Petron hired on a "single voyage basis" the vessel MT Solar I owned by Sunshine Maritime Development Corporation ("SMDC") for the transport of industrial fuel oil from the Petron Refinery in Bataan to Zamboanga. Petron, as a shipper of the cargo, conducted inspection of the vessel MT Solar I and likewise, relied on the documents presented by SMDC as carrier. Petron also relied on the implied warranties of SMDC as a carrier with respect to the seaworthiness of the vessel MT Solar I and other statutory/trading certificates issued by MARINA and other pertinent government agencies.

  SMDC, taking into consideration the vessel's trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis and relying on the declaration of SMDC, Petron loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.

  In September 2006, the SBMI was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

  On November 21, 2006, Petron filed a Memorandum of Appeal with the DOTC, elevating the disputed ruling of the SBMI for review. The appeal to the DOTC of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of December 31, 2011.

  Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

  Relief sought: Reversal of the SBMI's initial finding that Petron was liable for allegedly overloading the vessel.

  Status: The matter is still pending with the DOTC.

- **Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.**
  Civil Case No. 09-0394;
  RTC Br. 65, Jordan, Guimaras

  Oliver S. Chavez, et al. v. SMDC, Petron, et al.
  Civil Case No. 09-0395;
  RTC Br. 65, Jordan, Guimaras

  Background: These are complaints for damages filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment from the defendants of their claims for damages arising from the oil spill due to the sinking of MT Solar 1 on August 11, 2006. Total claims for both cases amount to ₱291.9 Million (₱286.4 Million and ₱5.5 Million). The reception of plaintiffs' evidence is on-going.

In the Arsenal case, respondents filed a motion to hear affirmative defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. The respondents went to the CA on a petition for *certiorari*. The respondents filed with the CA a compliance with the resolution requiring submission of pleadings and orders. The complainants filed their comment on the petition and the respondents filed their reply to the said comment. On May 29, 2014, the CA rendered a decision directing the plaintiffs to file their respective affidavits substantiating their claims of indigency. The plaintiffs filed a motion for partial reconsideration of the decision which was denied by the CA on January 30, 2015.

In the Chavez case, the respondents likewise filed the same motion based on the same grounds. The lower court also denied the motion so the respondents went to the CA on a petition for *certiorari*. The CA dismissed the petition for failing to attach the necessary pleadings and orders.

Status: In the Arsenal case, the petition has been submitted for resolution by the CA.

In the Chavez case, the respondents filed a motion for reconsideration which the CA denied in a resolution dated October 25, 2012.

(5) Securities of the Company

(a) Market Price of and Dividends on Company's Common Equity and Related Stockholder Matters

- Market Information

The Company's common shares and preferred shares are traded at the PSE.

As of February 28, 2015, the Company had approximately 150,992 stockholders. As of December 31, 2014, the total number of stockholders of the Company was 151,182. As of December 31, 2013, the total number of stockholders of the Company was 153,383. As of December 31, 2012, the total number of stockholders of the Company was 157,465.

On March 5, 2015, the preferred shares of the Company issued in 2010, were redeemed by the Company in accordance with the approval by the Board of Directors on November 10, 2014. Consistent with the practice and procedure at the PSE and due to the lack of the feature of re-issuability of the preferred shares of the Company at the time of redemption, the PPREF Shares were delisted by the PSE on March 6, 2015.

Common Shares

The price of the common shares of the Company as of February 27, 2015, the last trading day of February 2015, was ₽10.22 per share.

The price of the common shares of the Company on December 29, 2014, the last trading day of 2014, was ₽10.60 per share.

The price of the common shares of the Company on December 27, 2013, the last trading day of 2013, was ₽13.96 per share.

The high and low prices of the common shares for each quarter of the last two (2) fiscal years and for February 2015 are indicated in the table below:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2015				
For period ended February 28, 2015	10.62	February 20	9.04	January 29
2014				
1st Quarter	14.30	January 24	11.70	March 27 & 28
2nd Quarter	12.82	June 27	11.78	June 10
3rd Quarter	12.80	August 11 & 12	11.60	August 26 September 10, 15, & 16
4th Quarter	12.04	October 09	9.60	December 18
2013				
1st Quarter	14.40	March 12 & 15	10.38	January 10
2nd Quarter	16.20	May 14	12.62	June 25
3rd Quarter	14.82	July 26	11.70	September 10
4th Quarter	14.18	December 2 & 19	12.20	October 10

Preferred Shares

A. Preferred Shares issued in 2010 ("PPREF Shares")

The price of the PPREF Shares as of February 12, 2015, the last trading day of the shares during the month, was ₱101.30 per share. The price of the PPREF Shares on December 29, 2014, the last trading day of 2014, was ₱101.80 and on December 27, 2013, the last trading day of 2013, was ₱109.00 per share.

On March 5, 2015, the preferred shares of the Company issued in 2010, were redeemed by the Company in accordance with the approval by the Board of Directors on November 10, 2014. Consistent with the practice and procedure at the PSE and due to the lack of the feature of re-issuability of the preferred shares of the Company at the time of redemption, the PPREF Shares were delisted by the PSE on March 6, 2015.

The high and low prices of the preferred shares for each quarter of the last two (2) fiscal years and for February 2015 are indicated in the table below:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2015				
For period ended February 28, 2015	101.80	January 05	100.10	January 8
2014				
1st Quarter	109.00	January 6, 7, 8 & 29	105.60	March 31
2nd Quarter	107.00	May 9	101.50	June 17
3rd Quarter	104.00	August 12	100.00	August 19
4th Quarter	102.70	October 14 & November 18	100.20	December 22

2013				
1st Quarter	110.40	February 12	107.10	February 1 & 18
2nd Quarter	115.00	April 15	109.40	April 1
3rd Quarter	112.00	August 2	108.70	August 27
4th Quarter	111.40	November 05	108.00	December 18

B. Series 2 Preferred Shares issued in 2014 ("Series 2 Shares")

On November 3, 2014, Petron issued and listed on the PSE 10 million cumulative, non-voting, non-participating, non-convertible peso-denominated perpetual preferred shares at an offer price of ₽1,000.00 per share. The preferred shares issue, which reached a total of ₽10 billion, is composed of Series 2A Preferred Shares amounting to ₽7.12 billion and the Series 2B Preferred Shares amounting to ₽2.88 billion. 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.

Series 2A Shares

The price of the Series 2A Preferred Shares as of February 26, 2015, the last trading day of the shares during the month, was ₽1,012.00 per share. The price of the Series 2A Preferred Shares on December 18, 2014, the last day of 2014 the shares were traded, was ₽1,020.00.

The high and low prices of Series 2A Preferred Shares for the last quarter of 2014 beginning their listing on November 3, 2014 and for the period ended February 2015 are indicated in the table on the following page:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2015				
For period ended February 28, 2015	1,048.00	February 4	1,005.00	January
2014				
4th Quarter since listing on November 3, 2014	1,048.00	November 3	1,016.00	November 20

Series 2B Preferred Shares

The price of the Series 2B Preferred Shares as of February 27, 2015, the last trading day of the shares during the month, was ₽1,033.00 per share. The price of the Series 2B Preferred Shares on December 18, 2014, the last day of 2014 the shares were traded, was ₽1,030.00.

The high and low prices of Series 2B Preferred Shares for the last quarter of 2014 beginning their listing on November 3, 2014 and for the period ended February 2015 are indicated in the table below:

	Highest Close		**Lowest Close**	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
2015				
For period ended February 28, 2015	1,050.00	January 20	1,016.00	January 30
2014				
4th Quarter since listing on November 3, 2014	1,050.00	December 3	1,012.00	November 3

- Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of February 28, 2015 are as follows:

Common Shares

RANK	STOCKHOLDER NAME	Common	TOTAL SHARES	% OF O/S
1	SEA REFINERY CORPORATION	4,696,885,564	4,696,885,564	50.099554 %
2	SAN MIGUEL CORPORATION	1,702,870,560	1,702,870,560	18.163750 %
3	PCD NOMINEE CORP. (FILIPINO)	1,243,658,488	1,243,658,488	13.265543 %
4	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	731,156,097	731,156,097	7.798911 %
5	PCD NOMINEE CORP. (NON-FILIPINO)	530,644,002	530,644,002	5.660140 %
6	ANSALDO GODINEZ & CO. INC. FAO MARK V. PANGILINAN	8,000,000	8,000,000	0.085332 %
7	A. SORIANO CORPORATION	7,760,000	7,760,000	0.082772 %
8	ERNESTO CHUA CHIACO &/OR MARGARET SY CHUA CHIACO	6,000,000	6,000,000	0.063999 %
9	SYSMART CORP.	4,000,000	4,000,000	0.042666 %
10	MARGARET S. CHUACHIACO	3,900,000	3,900,000	0.041600 %
11	RAUL TOMAS CONCEPCION	3,504,000	3,504,000	0.037376 %
12	GENEVIEVE S. CHUACHIACO	2,735,000	2,735,000	0.029173 %
13	ERNESSON S. CHUACHIACO	2,732,000	2,732,000	0.029141 %
14	GENEVIEVE S. CHUA CHIACO	2,490,000	2,490,000	0.026560 %
15	BENEDICT CHUA CHIACO	2,365,000	2,365,000	0.025226 %
16	ANTHONY CHUA CHIACO	2,008,000	2,008,000	0.021418 %
17	SHAHRAD RAHMANIFARD	2,000,000	2,000,000	0.021333 %
18	KRISTINE CHUA CHIACO	1,956,000	1,956,000	0.020864 %
19	CHING HAI GO &/OR MARTINA GO	1,500,000	1,500,000	0.016000 %
20	ERNESSON S. CHUA CHIACO	1,450,000	1,450,000	0.015466 %
		8,957,614,711	8,957,614,711	95.546825 %

TOTAL NO. OF SHARES : 9,375,104,497
TOTAL NO. OF DISTINCT STOCKHOLDERS : 150,813
TOTAL NO. OF ACCOUNTS : 150,813

PPREF Shares

RANK	STOCKHOLDER NAME	Preferred	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	89,641,950	89,641,950	89.641950 %
2	SAN MIGUEL CORPORATION RETIREMENT PLAN-FIP	3,177,080	3,177,080	3.177080 %
3	SAN MIGUEL BREWERY INC. RETIREMENT PLAN	2,035,000	2,035,000	2.035000 %
4	SAN MIGUEL CORPORATION RETIREMENT PLAN - STP	580,910	580,910	0.580910 %
5	AFP RETIREMENT AND SEPARATION BENEFITS SYSTEM	500,000	500,000	0.500000 %
6	SAN MIGUEL YAMAMURA PACKAGING CORP. RETIREMENT PLAN	455,000	455,000	0.455000 %
7	SAN MIGUEL FOODS INC. RETIREMENT PLAN	455,000	455,000	0.455000 %
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	369,680	369,680	0.369680 %
9	FIRST LIFE FINANCIAL CO., INC.	340,000	340,000	0.340000 %
10	DOMINIC LIM SYTIN &/OR ANN MARIETTA LIM SYTIN	300,000	300,000	0.300000 %
11	THE FIRST RESOURCES MANAGEMENT & SECURITIES CORPORATION	275,000	275,000	0.275000 %
12	HSY REALTY & DEVELOPMENT CORPORATION	150,000	150,000	0.150000 %
13	MANILA BANKERS LIFE INSURANCE CORPORATION	122,500	122,500	0.122500 %
14	SECURITIES INVESTORS PROTECTION FUND, INC.	110,000	110,000	0.110000 %
15	TELEVISION INTERNATIONAL CORP.	100,000	100,000	0.100000 %
16	SAFEWAY CUSTOMS BROKERAGE, INC.	60,000	60,000	0.060000 %
17	KNIGHTS OF COLUMBUS FR. GEORGE J. WILLMANN CHARITIES, INC.	60,000	60,000	0.060000 %
18	CARMENCITA R. GUTIERREZ &/OR GIRME L. GUTIERREZ	51,000	51,000	0.051000 %
19	ELENA TAN LAO	50,000	50,000	0.050000 %
20	SALLY BAYLE &/OR SILVESTRE BAYLE	50,000	50,000	0.050000 %
		98,883,120	98,883,120	98.883120 %

TOTAL NO. OF SHARES : 100,000,000
TOTAL NO. OF DISTINCT STOCKHOLDERS : 124
TOTAL NO. OF ACCOUNTS : 124

Series 2A Shares

RANK	STOCKHOLDER NAME	Preferred 2-A	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	7,101,060	7,101,060	99.701502 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	13,590	13,590	0.190809 %
3	LORD ALLAN JAY Q. VELASCO	2,000	2,000	0.028081 %
4	SYLVIA LOPEZ ALEJANDRO	1,000	1,000	0.014040 %
5	ZENAIDA M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.014040 %
6	PATRICIO A. LIM OR SUSANA M. GERALDO	500	500	0.007020 %
7	IRMA T. SAN JUAN	500	500	0.007020 %
8	STA. MARIA DELLA STRADA PARISH GARDEN SANCTUARY	420	420	0.005897 %
9	AMORSOLO N. PAZ OR ROBERTINO T. PAZ OR WILHELMINA T. PAZ	400	400	0.005616 %
10	ALFRITO D. MAH OR AGUEDA G. MAH	300	300	0.004212 %
11	ARNEL JOSE S. BANAS OR RUFINA S. ELCANO OR MELIZA B. ZULUETA	150	150	0.002106 %
12	MA. TERESA L. YUSINGCO	150	150	0.002106 %
13	ENRIQUE MIGUEL L. YUSINGCO	100	100	0.001404 %
14	RUFINA S. ELCANO OR ARNEL JOSE S. BAÑAS OR MELIZA B. ZULUETA OR YASMIN M. MALLARI	100	100	0.001404 %
15	JULIE U. CERENO	100	100	0.001404 %
16	ROLANDO M. ELCANO OR AGNES E. CHIU	100	100	0.001404 %
17	MICHAELA D. TOLENTINO OR CARLOS M. TOLENTINO	100	100	0.001404 %
18	CLARA CONSOLACION G. SANTIAGO OR REYNALDO C. SANTIAGO	50	50	0.000702 %
19	VERDEO C. CHICO	50	50	0.000702 %
20	PIERRE ANGELICA C. RAÑON OR PATRICIA NEIL B. ZULUETA	50	50	0.000702 %
		7,121,720	7,121,720	99.991576 %

TOTAL NO. OF SHARES : 7,122,320
TOTAL NO. OF DISTINCT STOCKHOLDERS : 32
TOTAL NO. OF ACCOUNTS : 32

Series 2B Shares

RANK	STOCKHOLDER NAME	Preferred 2-B	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	2,813,290	2,813,290	97.762434 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	20,270	20,270	0.704387 %
3	MARCELINO R. TEODORO	12,500	12,500	0.434378 %
4	BEN TIUK SY OR JUDY Y. SY	6,400	6,400	0.222401 %
5	ALEXANDER T. SOLIS &/OR GINA T. SINFUEGO	5,000	5,000	0.173751 %
6	REYNALDO GARCIA ALEJANDRO &/OR SYLVIA L. ALEJANDRO	5,000	5,000	0.173751 %
7	FRANCISCO S. ALEJO &/OR CYNTHIA ALEJO &/OR ANNA MELISSA A. ACOP	3,000	3,000	0.104251 %
8	ENRIQUE DELA LLANA YUSINGCO	2,000	2,000	0.069500 %
9	JUSTINIANO B. PANAMBO, JR.	1,920	1,920	0.066720 %
10	FELIX B. CHAVEZ &/OR AIDA T. CHAVEZ OR IRENE T. CHAVEZ	1,500	1,500	0.052125 %
11	ROMEO V. JACINTO	1,000	1,000	0.034750 %
12	ZENAIDA M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.034750 %
13	DEWEY T. TAN	1,000	1,000	0.034750 %
14	RONNE T. SY SU OR CHADWICK C. SY SU	700	700	0.024325 %
15	MANUEL D. ESQUIVEL, JR.	700	700	0.024325 %
16	ROBERTO D. DE LEON	650	650	0.022588 %
17	FLORDELIZA C. CRUZ	350	350	0.012163 %
18	BAILEY R. YU, JR.	350	350	0.012163 %
19	CONCHITA GO TENG OR CHLOE LOUISE C. SAY	350	350	0.012163 %
20	ANGELO DE GUZMAN MACABUHAY	300	300	0.010425 %
		2,877,280	2,877,280	99.986100 %

TOTAL NO. OF SHARES : 2,877,680
TOTAL NO. OF DISTINCT STOCKHOLDERS : 23
TOTAL NO. OF ACCOUNTS : 23

- Dividends

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

  The dividend for the PPREF Shares was fixed at the rate of 9.5281% *per annum* calculated in reference to the offer price of ₽100 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date was not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Since the listing of the preferred shares in March 2010, cash dividends have been paid out in March, June, September, and December of each year. The PPREF Shares were redeemed on March 5, 2015 pursuant to the approval of the Board of Directors on November 7, 2014.

On November 3, 2014, the Company issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The dividend on the Series 2A Preferred Shares is at the fixed rate of 6.30% per annum and on the Series 2B Preferred Shares at the fixed rate of 6.8583% per annum, each as calculated based on the offer price of ₽1,000.00 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Cash dividends have been paid out on the Series 2 Shares in February 2015 since their listing in November 12014.

Dividend Declarations and Payments

On March 17, 2015, the Board of Directors approved a cash dividend of ₽0.05 per share to common shareholders as of the April 1, 2015 record date with a pay-out date of April 16, 2015. On the same date, the Board of Directors also approved cash dividends of (i) ₽15.75 per share to the shareholders of the Series 2A Preferred Shares for the second and third quarters of 2015 with record dates of April 17, 2015 and July 20, 2015, respectively, and pay-out dates of May 4, 2015 and August 3, 2015, respectively, and (ii) ₽17.14 per share to the shareholders of the Series 2B Preferred Shares for the second and third quarters of 2015 with record dates of April 17, 2015 and July 20, 2015, respectively, and pay-out dates of May 4, 2015 and August 3, 2015, respectively.

In 2014, the Board of Directors approved on March 24, 2014 a cash dividend of ₽0.05 per share to common shareholders as of the April 8, 2014 record date with a pay-out date of April 23, 2014. On May 6, 2014, the Company declared cash dividends of ₽2.82 per share to shareholders of the PPREF Shares as of the record date of May 21, 2014 with a pay-out date of June 5, 2014. On August 6, 2014, the Company declared cash dividends of ₽2.82 per share to shareholders of the PPREF Shares as of the record date of August 22, 2014 with a pay-out date of September 5, 2014.

On November 7, 2014, the Board of Directors approved cash dividends of (i) ₽2.82 per share to the shareholders of the PPREF Shares for the fourth quarter of 2014 and the first quarter of 2015, with respective record dates of November 24, 2014 and February 18, 2015 and pay-out dates of December 5, 2014 and March 5, 2015, (ii) ₽15.75 per share to the shareholders of the Series 2A Preferred Shares as of record date of January 20, 2015 with a pay-out date of February 3, 2015, and (iii) ₽17.14 per share to the shareholders of the Series 2B Preferred Shares as of the record date of January 20, 2015 with a pay-out date of February 3, 2015.

In 2013, the Board of Directors approved on March 18 a cash dividend of ₽0.05 per share to common shareholders as of the April 12, 2013 record date. Payment of the dividend was made on May 8, 2013. A cash dividend of ₽2.382 per PPREF Share was also declared on March 18, 2013 for the second and third quarters of 2013 based on the following record and payment dates: May 10, 2013 and August 8, 2013 record dates and June 5, 2013 and September 5, 2013 payment dates. The Board of Directors further approved on August 8, 2013 a cash dividend of ₽2.382 per PPREF Share for the fourth quarter of 2013 and the first quarter of 2014 with following record and payment dates: November 11, 2013 and February 7, 2014 record dates and December 5, 2013 and March 5, 2014 payment dates.

Under the terms and conditions of the undated subordinated capital securities issued by the Company on February 11 and March 6, 2013 (collectively, the "Capital Securities"), more particularly described below in *"Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction - US$750 Million Undated Subordinated Capital Securities,"* the Company cannot declare dividends on any Junior Securities (as defined thereunder), which include the common shares of the Company, or (except on a *pro rata* basis) on any Parity Securities (as defined thereunder), which include the outstanding preferred shares of the Company, in case the payment of all distributions scheduled to be made on the Capital Securities is not made in full by reason of the Company deferring such distributions in accordance with the terms of the Capital Securities.

- Description of Petron's Shares

The Company's capital stock consists of common shares and preferred shares, all with a par value of ₱1.00 per share. As of the date of this report, the outstanding capital stock of the Company is comprised of 9,375,104,497 common shares, 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares. The 100 million PPREF Shares issued by the Company in 2010 were redeemed on March 5, 2015 pursuant to the approval by the Board of Directors on November 7, 2014 and delisted by the PSE on March 6, 2015 consistent with the practice of the PSE in relation to redeemed shares that are not re-issuable under the issuing company's articles of incorporation.

The Series 2 Preferred Shares, with an aggregate issue value of ₱10 billion, were offered during the period October 20-24, 2014 pursuant to the order of registration and the permit to sell issued by the SEC on October 17, 2014. The Series 2 Preferred Shares were issued and listed on the PSE on November 3, 2014.

Common shares of the Company are voting shares while preferred shares are generally non-voting, except in cases provided by law.

- Stock Ownership Plan

Petron currently does not have a stock ownership plan or program. In 1994, when Petron's initial public offering was undertaken, a special secondary sale of Petron's shares was offered to its employees. The entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's executive officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this stock ownership plan. Preparatory to the listing of the Company's preferred shares, availment of said shares was offered to employees from February 15 to 19, 2010.

(b) Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction

Under the Code and the Amended SRC Rules, securities are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The securities discussed below were either offered in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the subject securities were either exempt securities pursuant to Section 9 of the Code and Rule 9.2 of the Amended SRC Rules or their offer and sale qualified as an exempt transaction pursuant to Sections 10.1 (k) and 10.1(l) of the Code and Rule 10.1 of the Amended SRC Rules. In the case of the subject exempt transactions, a confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualify as an exempt transaction under the Code was not required to be, and had not been, obtained. Nevertheless, in compliance with the Amended SRC Rules, notices of exemption were filed after the issuance of the securities qualifying as exempt transactions.

The securities discussed below were not registered with the SEC under the Code. Any future offer or sale thereof is subject to registration requirements under the Code, unless such offer or sale qualifies as an exempt transaction.

1. Fixed Rate Corporate Notes

- Fixed Rate Corporate Notes in 2009

  a. On June 5, 2009, the Company issued five (5)- and seven (7)-year Fixed Rate Corporate Notes totaling ₱10 billion, consisting of:

     i. Series A Notes amounting to ₱5.2 billion and having a maturity of five (5) years from the issue date; and
     ii. Series B Notes amounting to ₱4.8 billion and having a maturity of seven (7) years from the issue date.

  b. The arrangers were BPI Capital, the Development Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited and ING Bank NV - Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.

  c. The offer price was at 100%.

  d. As the notes described herein were offered to not more than 19 non-qualified buyers and/or to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

  e. The Series A Notes matured in June 2014 in accordance with the terms of the notes facility agreement. The Series B Notes were redeemed on December 5, 2014 upon the exercise by the Company of its early redemption option under the provisions of the notes facility agreement on account of the rate of the final withholding tax on the interest coupon on the Series B Notes that the Company shoulders pursuant to the provisions of the notes facility agreement, which rate increased from 2% in 2009 to 20% in December 2012.

- Fixed Rate Corporate Notes in 2011

  a. On October 25, 2011, the Company issued Fixed Rate Corporate Notes totaling ₱3.6 billion, broken down into the following series:

     i. Series A Notes amounting to ₱0.69 billion and having a maturity of seven (7) years from the Issue Date; and
     ii. Series B Notes amounting to ₱2.91 billion and having a maturity of 10 years from the Issue Date

  b. The arranger was ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.

  c. The offer price was at 100%.

d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

2. <u>₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars</u>

a. On November 10, 2010, the Company issued the ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars.

b. The arrangers were Credit Suisse, Deutsche Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. The notes were sold to various investors.

c. The offer price was at 100%.

d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. But, in compliance with the requirements of the Amended SRC Rules, a notice of exemption for the transaction was filed on November 22, 2010. The subject notes were listed on the Singapore Exchange on November 11, 2010.

3. <u>US$750 Million Undated Subordinated Capital Securities</u>

a. On February 6, 2013, the Company issued US$500 million undated subordinated capital securities (the "February 6 Issuance"). On March 11, 2013, the Company further issued US$250 million undated subordinated capital securities, which were consolidated and formed a single series with, the February 6 Issuance (the "March 11 Issuance").

b. The joint lead managers were Deutsche Bank AG, Singapore Branch, Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited, and UBS AG, Hong Kong Branch.

c. The offer price for the February 6 Issuance was at 100% and for the March 11 Issuance was at 104.25% plus an amount corresponding to accrued distributions on the capital securities from, and including, February 6, 2013 to, but excluding, March 11, 2013.

d. As the capital securities described herein were offered qualified buyers in the Philippines, such securities were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. In compliance with the requirements of the Amended SRC Rules, however, notices of exemption for the transactions were filed on February 12, 2013 for the February 6 Issuance and on March 18, 2013 for the March 11 Issuance. The capital securities were listed at the Stock Exchange of Hong Kong Limited on February 7, 2013 in relation to the February 6 Issuance and on March 12, 2013 in connection with the March 11 Issuance.

(6) Corporate Governance

<u>Corporate Governance Manual</u>

The Company adopted its CG Manual on July 1, 2002. In compliance with SEC Memorandum Circular No. 6, Series of 2009, amending SEC Memorandum Circular No. 2, Series of 2002, the Company further adopted revisions to the CG Manual which were approved by the Board of Directors on October 21, 2010. Further revisions to the CG Manual were also undertaken and approved by the Board of Directors on March 2, 2011.

The latest revisions to the CG Manual were approved by the Board of Directors on July 3, 2014 to make the CG Manual compliant with SEC Memorandum Circular No. 9, Series of 2014, which requires a specific reference in the corporate governance manuals of listed companies on the promotion of the interests of "stakeholders" other than the stockholders of the corporation. The latest version of the CG Manual also created the Governance Committee that will assist the Board of Directors in the development and implementation of the corporate governance policies, structures and systems of the Company, including the review of their adequacy and effectiveness, and oversee the adoption and implementation of systems or mechanisms for the assessment and improvement of the performance of the Board of Directors, the directors and the board committees, and the evaluation of the compliance by the Company with the CG Manual.

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

The Board of Directors and the Management of the Company should exercise sound judgment in reviewing and directing how the Company implements the requirements of good corporate governance. Pursuant to this mandate, the Board of Directors appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary, as the Compliance Officer of the Company tasked to monitor compliance with the CG Manual and applicable laws, rules and regulations.

<u>Various Corporate Policies</u>

For the past years, the Company observed the *San Miguel Corporation and Subsidiaries Whistle-blowing Policy* for itself and its subsidiaries. On May 6, 2013, the Company, in its pursuit of further ensuring that its business is conducted in the highest standards of fairness, transparency, accountability and ethics as embodied in its Code of Conduct and Ethical Business Policy, adopted the *Petron Corporation and Subsidiaries Whistle-blowing Policy*. The *Petron Corporation and Subsidiaries Whistle-blowing Policy* provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters of the Company and its subsidiaries (the "Petron Group"). The policy expressly provides the commitment of the Company that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

For the past years, the Company also observed the *San Miguel Corporation Policy on Dealings in Securities* for itself and its subsidiaries. On May 6, 2013, the Company likewise adopted the *Petron Corporation Policy on Dealings in Securities*. Under this policy, the directors, officers and employees of the Company are obliged to exercise extreme caution when dealing in the Company's securities and ensure that such dealings comply with this policy and the requirements under the Securities Regulation Code ("SRC"). The policy sets out the conditions and rules under which the directors, officers and employees of the Company should deal in securities of the Company.

Board Assessment

In August 2013, the Board of Directors adopted a new format for the annual self-assessment by each director of his/her performance and that of the Board of Directors and the board committees.

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

Compliance with CG Manual

The Company is in compliance with the provisions of the CG Manual.

- Its directors possess all the qualifications and none of the disqualifications of a director under the CG Manual, the Company's By-laws and applicable laws and regulations.
- The Company has three (3) independent directors (Mr. Reynaldo G. David, Retired Supreme Court Chief Justice Artemio V. Panganiban and Mr. Margarito B. Teves) and a Compliance Officer (Atty. Joel Angelo C. Cruz).
- The Chairmen and the members of the Audit, Compensation, Nomination, Executive and Governance Committees were elected pursuant to the requirements of the CG Manual and the Company's By-laws.

- The Company regularly held board meetings and board committee meetings, at which a quorum was always present.
- The directors properly discharge their duties and responsibilities as directors and attended a corporate governance seminar.
- Each director accomplished a self-assessment form for 2014.
- The Company has an independent external auditor.
- The Company has an Internal Audit Department.
- The Company respects and observes the rights of its stockholders under applicable law.
- The Company is in material compliance with laws and regulations applicable to its business operations, including applicable accounting standards and disclosure requirements,

In the Top 50 of the Philippine Publicly-Listed Companies

From 2005 until 2011, the Institute of Corporate Directors ("ICD"), in collaboration with the SEC, the PSE, and the Ateneo School of Law, consistently recognized the Company as among the top publicly-listed companies with good corporate governance.

Beginning 2012, Philippine publicly-listed companies have been evaluated using the ASEAN Corporate Governance Scorecard ("ACGS") developed by the ASEAN Capital Markets Forum in preparation for the ASEAN integration in 2015. The ACGS, which is based on international best practices in corporate governance, assesses publicly-listed companies using publicly available information.

The Company has consistently placed in the top 50 Philippine publicly-listed companies with good corporate governance since the launch of the use of the ACGS in 2012.

Pursuit of Corporate Governance

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance, including through the attendance at briefings conducted by the ICD for the new ASEAN Corporate Governance Scorecard. The Company also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company's corporate objectives and the best interests of its stakeholders and the Company.

To further instill good governance in the Company, the Company will continue to coordinate with accredited providers for the attendance of the directors and officers in more extensive corporate governance programs to keep them updated with the latest developments in and best practices on good corporate governance. The Office of the General Counsel and Corporate Secretary will also continue to periodically release internal memoranda to explain and/or reiterate the Company's corporate governance practices and the latest good corporate governance practices in general.

Annual Corporate Governance Report ("ACGR")

Other matters relating to the governance of the Company are discussed in the ACGR of the Company filed with the SEC and posted on the company website.

(7) List of Directors

<u>Meeting Attendance</u>

The list of the directors of the Company and the directors' attendance at meetings held in 2014 are set out below.

<u>Corporate Governance Seminar</u>

All the directors of the Company (including all its executive officers, the Assistant Corporate Secretary and the Internal Auditor) completed a corporate governance seminar for year 2014 conducted in accordance with SEC Memorandum Circular No. 20, Series of 2013.

Director's Name	January 29 Regular Board Meeting	March 24 Regular Board Meeting	May 6 Regular Board Meeting	May 20 Annual Stockholders' Meeting	May 20 Organizational Meeting	July 3 Special Board Meeting	August 6 Regular Board Meeting	November 7 Regular Board Meeting	Attendance at Corporate Governance Seminar in 2014 (Yes/No)
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Eduardo M. Cojuangco, Jr.	✓	✓	✓	–	✓	✓	✓	✓	Yes
Estelito P. Mendoza	✓	✓	✓	✓	✓	–	–	✓	Yes
Roberto V. Ongpin	✓	✓	–	N/A	N/A	N/A	N/A	N/A	N/A
Bernardino R. Abes	✓	✓	–	N/A	N/A	N/A	N/A	N/A	N/A
Eric O. Recto	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Ron W. Haddock	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Mirzan Mahathir	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Romela M. Bengzon	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Aurora T. Calderon	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Virgilio S. Jacinto	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Nelly Favis-Villafuerte	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Artemio V. Panganiban	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Reynaldo G. David	✓	✓	✓	✓	✓	✓	✓	✓	Yes
Jose P. De Jesus*	N/A	N/A	N/A	✓	✓	✓	–	✓	Yes
Margarito B. Teves*	N/A	N/A	N/A	✓	✓	✓	✓	✓	Yes

Legend: ✓ - Present – - Absent * *Elected as director on May 20, 2014*

ANNEX C

2014 Audited Financial Statements (Petron & Subsidiaries)

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						3	1	1	7	1

Company Name

PETRON CORPORATION AND SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town)Province)

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		Certificates of Permit to Offer Securities for Sale dated 1994, 1995, 2010 and 2014

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
contactus@petron.com	886-3888, 884-9200	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
151,182 (as of December 31, 2014)	May 19, 2015	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
EFREN P. GABRILLO	epgabrillo@petron.com	886388 loc 49168	

Contact Person's Address

SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

Note: In case of death, resgination 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.

PETRON

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. Eraña	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. 0332-14
Until December 31, 2015
Attorney's Roll No. 56728
PTR No. 2278008/1-5-15/Mandaluyong
Lifetime IBP No. 08524
MCLE Compliance No. IV-0014582/3-25-13

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
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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.

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)

	Note	December 31 2014	2013
ASSETS			
Current Assets			
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
Total Current Assets		**219,029**	183,960
Noncurrent Assets			
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
Total Noncurrent Assets		**172,295**	173,498
		P391,324	P357,458
LIABILITIES AND EQUITY			
Current Liabilities			
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
Total Current Liabilities		**202,587**	176,570
Noncurrent Liabilities			
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
Total Noncurrent Liabilities		**75,045**	69,000
Total Liabilities		**277,632**	245,570

Forward

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

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

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

		Equity Attributable to Equity Holders of the Parent Company									
					Retained Earnings						
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
As of January 1, 2014		**P9,475**	**P9,764**	**P30,546**	**P25,171**	**P17,487**	**P2,242**	**(P721)**	**P93,964**	**P17,924**	**P111,888**
Unrealized fair value loss on available-for-sale financial assets - net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**(23)**	**(23)**	**-**	**(23)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**(1,405)**	**(1,405)**	**(70)**	**(1,475)**
Equity reserve for retirement plan - net of tax		**-**	**-**	**-**	**-**	**-**	**(3,260)**	**-**	**(3,260)**	**-**	**(3,260)**
Other comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**(3,260)**	**(1,428)**	**(4,688)**	**(70)**	**(4,758)**
Net income (loss) for the year		**-**	**-**	**-**	**-**	**3,320**	**-**	**-**	**3,320**	**(311)**	**3,009**
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**3,320**	**(3,260)**	**(1,428)**	**(1,368)**	**(381)**	**(1,749)**
Cash dividends 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)**	**(1,183)**
Transactions with owners		**10**	**9,889**	**-**	**-**	**(5,163)**	**-**	**-**	**4,736**	**(1,183)**	**3,553**
As of December 31, 2014		**P9,485**	**P19,653**	**P30,546**	**P25,171**	**P15,644**	**(P1,018)**	**(P2,149)**	**P97,332**	**P16,360**	**P113,692**

Forward

	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings: Appro-priated	Retained Earnings: Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company									
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

	Note	Capital Stock	Additional Paid-in Capital	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company								
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 financial assets - net of tax		-	-	-	-	-	10	10	-	10
Exchange differences on translation of foreign 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)

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

Forward

	Note	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**P360,309**	P349,212	P335,351
Payments of:				
Loans		**(320,949)**	(345,180)	(283,459)
Cash dividends and distributions	*21*	**(5,676)**	(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		**9,899**	-	-
Increase in other noncurrent liabilities		**905**	2,059	1,735
Net cash flows provided by financing activities		**44,488**	32,539	65,407
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**112**	471	(438)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**40,204**	23,433	3,142
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**50,398**	26,965	23,823
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P90,602**	P50,398	P26,965

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Data, Exchange Rates and Commodity Volumes)

1. Reporting Entity

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and 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.

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 2014	2013	Country of Incorporation
Overseas Ventures Insurance Corporation (Ovincor)	**100.00**	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	**100.00**	100.00	Philippines
Petron Freeport Corporation (PFC)	**100.00**	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	**100.00**	100.00	Singapore
Petron Marketing Corporation (PMC)	**100.00**	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	**40.00**	40.00	Philippines
Limay Energen Corporation (LEC)	**100.00**	100.00	Philippines
Petron Global Limited (PGL)	**100.00**[a]	100.00[a]	British Virgin Islands
Petron Finance (Labuan) Limited	**100.00**	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. and Subsidiaries (Mauritius)	**100.00**	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	**45.85**	45.85	Hong Kong

[a] *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.

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.

<u>Financial Assets and Financial Liabilities</u>

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.

<u>*Financial Assets*</u>

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated 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.

<u>Property, Plant and Equipment</u>
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, 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.

<u>Foreign Currency</u>

Foreign Currency Translations

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

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

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

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

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

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

<u>Taxes</u>
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.

<u>Assets Held for Sale</u>
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.

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

<u>Basic and Diluted Earnings Per Common Share (EPS)</u>
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of USCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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).

<u>Estimates and Assumptions</u>
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).

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).

6. Cash and Cash Equivalents

This account consists of:

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

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:

	Note	**2014**	2013
Proprietary membership shares	*34, 35*	**P136**	P117
Derivative assets	*34, 35*	**334**	666
		P470	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:

	2014	2013
Government securities	**P372**	P757
Other debt securities	**509**	158
	881	915
Less: current portion	**430**	458
	P451	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:

	Note	**2014**	2013
Due in one year or less		**P430**	P458
Due after one year through five years		**451**	457
	34, 35	**P881**	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	**P915**	P911
Additions	**461**	56
Disposals	**(457)**	(50)
Amortization of premium	**(17)**	(36)
Fair value loss	**(23)**	(29)
Currency translation adjustment	**2**	63
Balance at end of year	**P881**	P915

9. Trade and Other Receivables

This account consists of:

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

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

	Past Due but not Impaired				
	Within 30 days	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Total**
December 31, 2014					
Reseller	**P103**	**P29**	**P3**	**P9**	**P144**
Lubes	**9**	**17**	**-**	**-**	**26**
Gasul	**3**	**33**	**19**	**-**	**55**
Industrial	**37**	**1,208**	**301**	**568**	**2,114**
Others	**97**	**222**	**63**	**780**	**1,162**
	P249	**P1,509**	**P386**	**P1,357**	**P3,501**
December 31, 2013					
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	**P28,577**	P25,509
Petroleum - at NRV	**22,675**	24,596
TBA products, materials and supplies:		
Materials and supplies - at NRV	**1,899**	1,584
TBA - at cost	**29**	32
	P53,180	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	**P1,114**	P387
Provisions due to:		
Write-downs	**798**	702
Obsolescence	**14**	33
Reversals	**(702)**	(8)
	P1,224	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:

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

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

12. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost							
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/ acquisition of subsidiaries	4,081	771	510	(124)	265	(18,270)	(12,767)
Currency translation 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/ acquisition of subsidiaries	695	1,265	179	(8)	2,327	(2,020)	2,438
Currency translation adjustment	(388)	(587)	(393)	(40)	(411)	(110)	(1,929)
December 31, 2014	**28,330**	**50,532**	**16,142**	**4,328**	**14,275**	**104,729**	**218,336**
Accumulated Depreciation and Amortization							
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/ acquisition of subsidiaries	1,021	(251)	(687)	(172)	18	-	(71)
Currency translation 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/ acquisition of subsidiaries	(49)	(40)	(274)	(47)	422	-	12
Currency translation adjustment	(319)	86	(238)	(578)	(29)	-	(1,078)
December 31, 2014	**16,766**	**32,218**	**10,471**	**3,135**	**2,096**	**-**	**64,686**
Net Book Value							
December 31, 2013	P12,059	P19,362	P5,996	P1,260	P10,702	P92,268	P141,647
December 31, 2014	**P11,564**	**P18,314**	**P5,671**	**P1,193**	**P12,179**	**P104,729**	**P153,650**

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.

13. Investment Property

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

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

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.

14. Acquisition of Subsidiaries and Goodwill

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

	Note	**2014**	2013
Balance at beginning of year	*14a*	**P9,386**	P9,032
Additions	*14b*	**-**	298
Translation adjustments		**(465)**	56
Balance at end of year		**P8,921**	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 provisionary 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 Amounts	**Final Amounts**
Total cash consideration transferred	P25,928	**P24,790**
Non-controlling interest measured at proportionate interest in identifiable net assets	3,584	**5,445**
Total identifiable net assets at fair value	(18,873)	**(20,878)**
Goodwill	P10,639	**P9,357**

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:

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

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

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

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

15. Other Assets

This account consists of:

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

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:

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

	Note	**2014**	2013
Unsecured Peso denominated (net of debt issue cost)			
Fixed rate corporate notes of 7% in 2010 to 2017	*(b)*	**P19,891**	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)*	**3,466**	3,498
Unsecured Foreign currency denominated (net of debt issue cost)			
Floating rate dollar loan - US$480 million	*(c)*	**9,052**	11,979
Floating rate dollar loan - US$485 million	*(e)*	**15,094**	21,069
Floating rate dollar loan - US$475 million	*(f)*	**20,821**	-
Floating rate dollar loan - MYR100 million	*(g)*	**1,269**	-
Floating rate dollar loan - MYR50 million	*(g)*	**634**	-
Floating rate dollar loan - MYR100 million	*(g)*	**1,268**	-
Floating rate dollar loan - MYR50 million	*(g)*	**634**	-
	34, 35	**72,129**	66,187
Less current portion		**5,860**	8,155
		P66,269	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	**P858**	P1,010
Additions	**712**	293
Amortization for the year	**(497)**	(445)
Ending balance	**P1,073**	P858

<u>Repayment Schedule</u>
As of December 31, 2014 and 2013, the annual maturities of long-term debt are as follows:

<u>2014</u>

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

<u>2013</u>

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
	P67,045	P858	P66,187

19. Asset Retirement Obligation

Movements in the ARO are as follows:

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

20. Other Noncurrent Liabilities

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

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:

<u>2014</u>

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

<u>2013</u>

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:

	Note	**2014**	2013	2012
Inventories	*10*	**P456,712**	P432,779	P398,102
Depreciation and amortization	*25*	**2,654**	2,628	2,471
Personnel expenses	*24*	**1,529**	1,269	1,006
Others	*19, 31*	**2,205**	3,803	5,219
		P463,100	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:

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

24. Personnel Expenses

This account consists of:

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

The above amounts are distributed as follows:

	Note	**2014**	2013	2012
Costs of goods sold	*22*	**P1,529**	P1,269	P1,006
Selling and administrative expenses	*23*	**2,731**	2,815	2,246
		P4,260	P4,084	P3,252

25. Depreciation and Amortization

This account consists of:

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

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

	Note	**2014**	2013	2012
Interest expense and other financing charges:				
Long-term debt	*18*	**P858**	P406	P2,533
Short-term loans	*16*	**3,302**	3,351	3,044
Bank charges		**1,182**	1,579	1,351
Amortization of debt issue costs	*18*	**115**	52	491
Accretion on ARO	*19*	**65**	66	83
Others		**6**	8	6
		P5,528	P5,462	P7,508
Interest income:				
Advances to related parties	*15, 28*	**P428**	P777	P580
Short-term placements	*6*	**331**	373	345
AFS financial assets	*8*	**10**	17	20
Trade receivables		**55**	88	101
Cash in banks	*6*	**16**	14	58
Others		**4**	16	17
		P844	P1,285	P1,121
Other income (expenses):				
Foreign currency gains (losses) - net	*34*	**(P1,617)**	(P4,109)	P1,270
Marked-to-market gains (losses)	*35*	**733**	2,514	(845)
Insurance claims		**33**	115	119
Changes in fair value of financial assets at FVPL	*7*	**19**	(29)	(22)
Gain on settlement of ARO	*19*	**-**	29	83
Hedging gains - net		**1,560**	495	49
Others - net		**62**	310	123
		P790	(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	**P400**	P795
Rental	**246**	218
ARO	**220**	242
Net retirement benefits liability (asset)	**557**	(837)
MCIT	**242**	10
NOLCO	**407**	19
Unutilized tax losses	**275**	124
Fair market value adjustments on business combination	**(39)**	(47)
Excess of double-declining over straight-line method of depreciation and amortization	**(2,938)**	(3,101)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(3,298)**	(2,037)
Inventory differential	**305**	(438)
Capitalized taxes and duties on inventories deducted in advance	**(211)**	(204)
Unrealized foreign exchange losses - net	**606**	816
Unrealized fair value gains on AFS financial assets	**(1)**	(3)
	(P3,229)	(P4,443)

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

	2014	2013
Deferred tax assets	**P242**	P162
Deferred tax liabilities	**(3,471)**	(4,605)
	(P3,229)	(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	**P569**	P1,356	P546
Deferred	**235**	494	(87)
	P804	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	**P395**	(P243)	P288
Rental	**(28)**	(22)	(18)
ARO	**22**	(32)	(18)
MCIT	**(232)**	291	(299)
NOLCO	**(388)**	485	(504)
Unutilized tax losses	**(151)**	(31)	(93)
Excess of double-declining over straight-line method of depreciation and amortization	**(163)**	(106)	123
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**1,261**	940	267
Inventory differential	**(743)**	112	212
Capitalized taxes and duties on inventories deducted in advance	**7**	100	(122)
Unrealized foreign exchange losses (gains) - net	**210**	(957)	(77)
Others	**45**	(43)	154
	P235	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		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	*36*	**(4.14%)**	(2.97%)	(3.67%)
Interest income subjected to lower final tax		**(2.20%)**	(1.35%)	(4.02%)
Nontaxable income		**(1.36%)**	(0.81%)	(8.81%)
Nondeductible expense		**5.53%**	3.13%	6.66%
Nondeductible interest expense		**0.71%**	0.49%	1.61%
Changes in fair value of financial assets at FVPL	*26*	**(0.16%)**	0.12%	0.31%
Excess of optional standard deduction over deductible expenses		**(0.13%)**	(0.03%)	(0.36%)
Others, mainly income subject to different tax rates		**(7.16%)**	(1.93%)	(1.22%)
Effective income tax rate		**21.09%**	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:

	Note	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*	**2014**	**P428**	**P -**	**P6,263**	**P -**	On demand/	Unsecured;
		2013	777	-	16,393	-	long-term;	no impairment
		2012	557	-	15,517	-	Interest bearing	
Intermediate Parent	*e*	**2014**	**5**	**133**	**5**	**46**	On demand;	Unsecured;
		2013	4	167	5	94	Non-interest	no impairment
		2012	5	87	7	20	bearing	
Under Common Control	*b, c, d*	**2014**	**7,261**	**7,298**	**1,026**	**1,089**	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*	**2014**	**152**	**-**	**29**	-	On demand;	Unsecured;
		2013	86	-	21	-	Non-interest	no impairment
		2012	78	-	17	28	bearing	
Joint Venture	*c*	**2014**	**-**	**83**	**11**	**12**	On demand;	Unsecured;
		2013	-	137	8	28	Non-interest	no impairment
		2012	-	45	18	25	bearing	
		2014	**P7,846**	**P7,514**	**P7,334**	**P1,147**		
		2013	P16,920	P3,748	P19,607	P1,046		
		2012	P14,320	P2,238	P17,530	P685		

a. 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).

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

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P6.90. 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	**P690**	P536	P568
Retirement benefits - defined contribution plan	**25**	23	18
Retirement benefits (costs) - defined benefit plan	**(3)**	66	23
	P712	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	**P1,181**	P1,110	P913
After one year but not more than five years	**2,814**	3,490	2,998
After five years	**9,296**	8,554	6,861
	P13,291	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:

	2014	2013	2012
Within one year	**P279**	P284	P298
After one year but not more than five years	**322**	384	344
After five years	**25**	43	69
	P626	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 Defined Benefit Obligation			Fair Value of Plan Assets			Effect of Asset Ceiling			Net Defined Benefit Retirement Asset (Liability)		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Balance at beginning of year	**(P5,867)**	(P5,671)	(P3,634)	**P9,598**	P5,021	P10,206	**(P1,448)**	(P33)	(P3,249)	**P2,283**	(P683)	P3,323
Benefit obligation of a newly acquired subsidiary	**-**	-	(834)	**-**	-	-	**-**	-	-	**-**	-	(834)
Recognized in profit or loss												
Current service cost	**(302)**	(283)	(203)	**-**	-	-	**-**	-	-	**(302)**	(283)	(203)
Interest expense	**(311)**	(311)	(266)	**-**	-	-	**-**	-	-	**(311)**	(311)	(266)
Interest income	**-**	-	-	**500**	273	508	**-**	-	-	**500**	273	508
Interest on the effect of asset ceiling	**-**	-	-	**-**	-	-	**(77)**	(2)	(200)	**(77)**	(2)	(200)
Settlement gain	**99**	-	-	**-**	-	-	**-**	-	-	**99**	-	-
	(514)	(594)	(469)	**500**	273	508	**(77)**	(2)	(200)	**(91)**	(323)	(161)
Recognized in other comprehensive income												
Remeasurements:												
Actuarial (gains) losses arising from:												
Experience adjustments	**(235)**	53	(413)	**-**	-	-	**-**	-	-	**(235)**	53	(413)
Changes in financial assumptions	**(331)**	(101)	(210)	**-**	-	-	**-**	-	-	**(331)**	(101)	(210)
Changes in demographic assumptions	**466**	42	(327)	**-**	-	-	**-**	-	-	**466**	42	(327)
Return on plan asset excluding interest	**-**	-	-	**(6,081)**	4,651	(5,552)	**-**	-	-	**(6,081)**	4,651	(5,552)
Changes in the effect of asset ceiling	**-**	-	-	**-**	-	-	**1,525**	(1,413)	3,416	**1,525**	(1,413)	3,416
	(100)	(6)	(950)	**(6,081)**	4,651	(5,552)	**1,525**	(1,413)	3,416	**(4,656)**	3,232	(3,086)
Others												
Benefits paid	**485**	413	207	**(414)**	(347)	(170)	**-**	-	-	**71**	66	37
Transfers from other plans/affiliate	**-**	(38)	-	**-**	-	-	**-**	-	-	**-**	(38)	-
Transfers from other plans/affiliate	**-**	38	(29)	**-**	-	29	**-**	-	-	**-**	38	-
Translation adjustment	**49**	(9)	38	**-**	-	-	**-**	-	-	**49**	(9)	38
	534	404	216	**(414)**	(347)	(141)	**-**	-	-	**120**	57	75
Balance at end of year	**(P5,947)**	(P5,867)	(P5,671)	**P3,603**	P9,598	P5,021	**P -**	(P1,448)	(P33)	**(P2,344)**	P2,283	(P683)

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

	Note	2014	2013
Other noncurrent assets - net	*15*	**P -**	P3,169
Trade and other payables	*17*	**(71)**	(66)
Retirement benefits liability (noncurrent portion)		**(2,273)**	(820)
		(P2,344)	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:

	2014	2013
Shares of stock		
Quoted	**78%**	80%
Unquoted	**5%**	6%
Government securities	**8%**	4%
Cash	**2%**	5%
Others	**7%**	5%
	100%	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	**4.49% to 5.50%**	5.00% to 6.26%	5.00% - 6.30%
Future salary increases	**6.00% to 8.00%**	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:

	Defined Benefit Liabilities	
2014	**1 Percent Increase**	**1 Percent Decrease**
Discount rate	**(P461)**	**P538**
Salary increase rate	**494**	**(434)**

	Defined Benefit Assets	
2013	1 Percent Increase	1 Percent Decrease
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 DFO*	IFO*	ELO*	Contract Price 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 DFO*	IFO*	ELO*	Contract Price 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, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to 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	**P3,320**	P5,247	P1,701
Dividends on preferred shares for the period	**(1,114)**	(953)	(953)
Distributions to the holders of USCS	**(3,580)**	(1,674)	-
Net income (loss) attributable to common shareholders of the Parent Company (a)	**(P1,374)**	P2,620	P748
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/Diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	**(P0.15)**	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	**P11,226**	(P3,971)	(P3,484)
Inventories	**(1,547)**	(1,819)	1,341
Other current assets	**(4,753)**	(1,247)	(2,469)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**(16,122)**	9,747	(3,909)
Trade and other payables and others	**5,083**	19,070	4,310
	(6,113)	21,780	(4,211)
Additional allowance for (net reversal of) impairment of receivables, inventory decline and/or obsolescence and others	**(286)**	630	383
	(P6,399)	P22,410	(P3,828)

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 Equivalent**	US dollar	Phil. peso Equivalent
Assets				
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
	1,890	**84,564**	1,399	62,096
Liabilities				
Short-term loans	**776**	**34,713**	440	19,546
Liabilities for crude oil and petroleum product importation	**945**	**42,263**	1,347	59,804
Long-term debts (including current maturities)	**1,111**	**49,676**	759	33,708
Other liabilities	**712**	**31,869**	507	22,483
	3,544	**158,521**	3,053	135,541
Net foreign currency - denominated monetary liabilities	**(1,654)**	**(73,957)**	(1,654)	(73,445)

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
December 31, 2014	**44.72**

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 dollar Exchange Rate		**P1 Increase in the US dollar Exchange Rate**	
2014	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
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 petroleum product importation	**297**	**856**	**(297)**	**(856)**
Long-term debts (including 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 dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
2013	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
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 petroleum product importation	466	1,207	(466)	(1,207)
Long-term debts (including 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
Fixed Rate							
Philippine peso 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%**	
Floating Rate							
Malaysian ringgit denominated (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 (expressed in Php**)**	**6,101**	**18,399**	**12,266**	**6,069**	**3,035**	**-**	**45,870**
Interest rate*		**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**		
	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	P5,284	P84	P4,548	P20,036	P678	P2,707	P33,337
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	6.3% - 7.2%	7.2%	
US$ denominated (expressed in Php)	3,076	12,240	12,240	6,152	-	-	33,708
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin			
	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:

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

	Neither Past Due nor Impaired	**Past Due but not Impaired**	**Impaired**	**Total**
December 31, 2014				
Reseller	**P3,586**	**P144**	**P35**	**P3,765**
Lubes	**250**	**26**	**19**	**295**
Gasul	**548**	**55**	**147**	**750**
Industrial	**7,702**	**2,114**	**494**	**10,310**
Others	**2,277**	**1,162**	**105**	**3,544**
	P14,363	**P3,501**	**P800**	**P18,664**

	Neither Past Due nor Impaired	Past Due but 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**
December 31, 2014				
Reseller	**P3,225**	**P494**	**P46**	**P3,765**
Lubes	**190**	**84**	**21**	**295**
Gasul	**228**	**396**	**126**	**750**
Industrial	**2,828**	**5,848**	**1,634**	**10,310**
Others	**1,271**	**2,050**	**223**	**3,544**
	P7,742	**P8,872**	**P2,050**	**P18,664**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2013				
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.

2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**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**
Financial Liabilities						
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 maturiti	**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**

2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	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
Financial Liabilities						
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	**P391,324**	P357,458
Total liabilities	**277,632**	245,570
Total equity	**113,692**	111,888
Debt to equity ratio	**2.4:1**	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	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair 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	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair 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:

	Note	**2014**	2013
Fair value at beginning of year		**P514**	(P206)
Net changes in fair value during the year	*26*	**733**	2,514
Fair value of settled instruments		**(1,011)**	(1,794)
Balance at end of year		**P236**	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.

2014	**Level 1**	**Level 2**	**Total**
Financial Assets:			
FVPL	**P136**	**P -**	**P136**
Derivative assets	**-**	**334**	**334**
AFS financial assets	**372**	**509**	**881**
Financial Liabilities:			
Derivative liabilities	**-**	**(98)**	**(98)**

2013	Level 1	Level 2	Total
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.

<u>Fluidized Bed Catalytic Cracker (PetroFCC) Unit</u>
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 (Limay, 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.

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/ Others	Total
2014						
Revenue:						
External sales	**P479,753**	**P -**	**P -**	**P2,782**	**P -**	**P482,535**
Inter-segment sales	**249,428**	**82**	**550**	**-**	**(250,060)**	**-**
Operating income	**7,154**	**53**	**238**	**59**	**101**	**7,605**
Net income	**3,172**	**85**	**36**	**70**	**(354)**	**3,009**
Assets and liabilities:						
Segment assets	**422,442**	**1,388**	**5,090**	**1,072**	**(38,910)**	**391,082**
Segment liabilities	**292,491**	**185**	**4,010**	**360**	**(22,885)**	**274,161**
Other segment information						
Property, plant and equipment	**148,256**	**-**	**-**	**232**	**5,162**	**153,650**
Depreciation and amortization	**5,920**	**-**	**2**	**45**	**66**	**6,033**
Interest expense	**5,528**	**-**	**189**	**-**	**(189)**	**5,528**
Interest income	**1,011**	**14**	**1**	**6**	**(188)**	**844**
Income tax expense	**809**	**11**	**22**	**14**	**(52)**	**804**

Forward

	Petroleum	Insurance	Leasing	Marketing	Elimination/ 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/ 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	**P320,516**	P284,845
International	**70,566**	72,451
	P391,082	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/ Others**	**Total**
2014						
Revenue:						
Local	**P276,885**	**P52**	**P550**	**P2,782**	**(P3,538)**	**P276,731**
Export/international	**452,296**	**30**	**-**	**-**	**(246,522)**	**205,804**
2013						
Revenue:						
Local	P265,989	P21	P560	P2,551	(P4,676)	P264,445
Export/international	416,745	53	-	-	(217,605)	199,193
2012						
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

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 enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 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.

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATON

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

PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

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

[(a)] *Balance of Available for Sale Securities and Fair Value Through Profit or Loss is less than 5% of total current assets.*

[(b)] *Balance of account is less than 1% of the total assets of the Company and no individually significant advances over P100,000.*

[(c)] *Balance of account is less than 5% of total assets of the Company*

Supplementary Schedule to Parent Financial Statements

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 BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 6,117	P 17,729	P (14,883)	P -	P 8,963	P 8,963	P -	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
TOTAL	**P 27,995**	**P 253,693**	**P (258,966)**	**P -**	**P 22,722**	**P 22,722**	**P -**	**P 22,722**

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 BALANCE		ADDITIONS/ CTA/RECLASS/ OTHERS		AMTS PAID/ DEBIT MEMO		AMOUNTS WRITTEN OFF		TOTAL		CURRENT		NONCURRENT		ENDING 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
TOTAL	P	**28,201**	P	**253,487**	P	**(258,966)**	P	**-**	P	**22,722**	P	**22,722**	P	**-**	P	**22,722**

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

Description		Beginning balance		Additions at cost		Charged to cost and expenses		Charged to other accounts		Other changes additions (deductions)		Ending balance
Goodwill		**9,386**		**-**		**-**		**-**		**(465)**		**8,921**
Franchise Fee:												
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**
Computer Software:												
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**

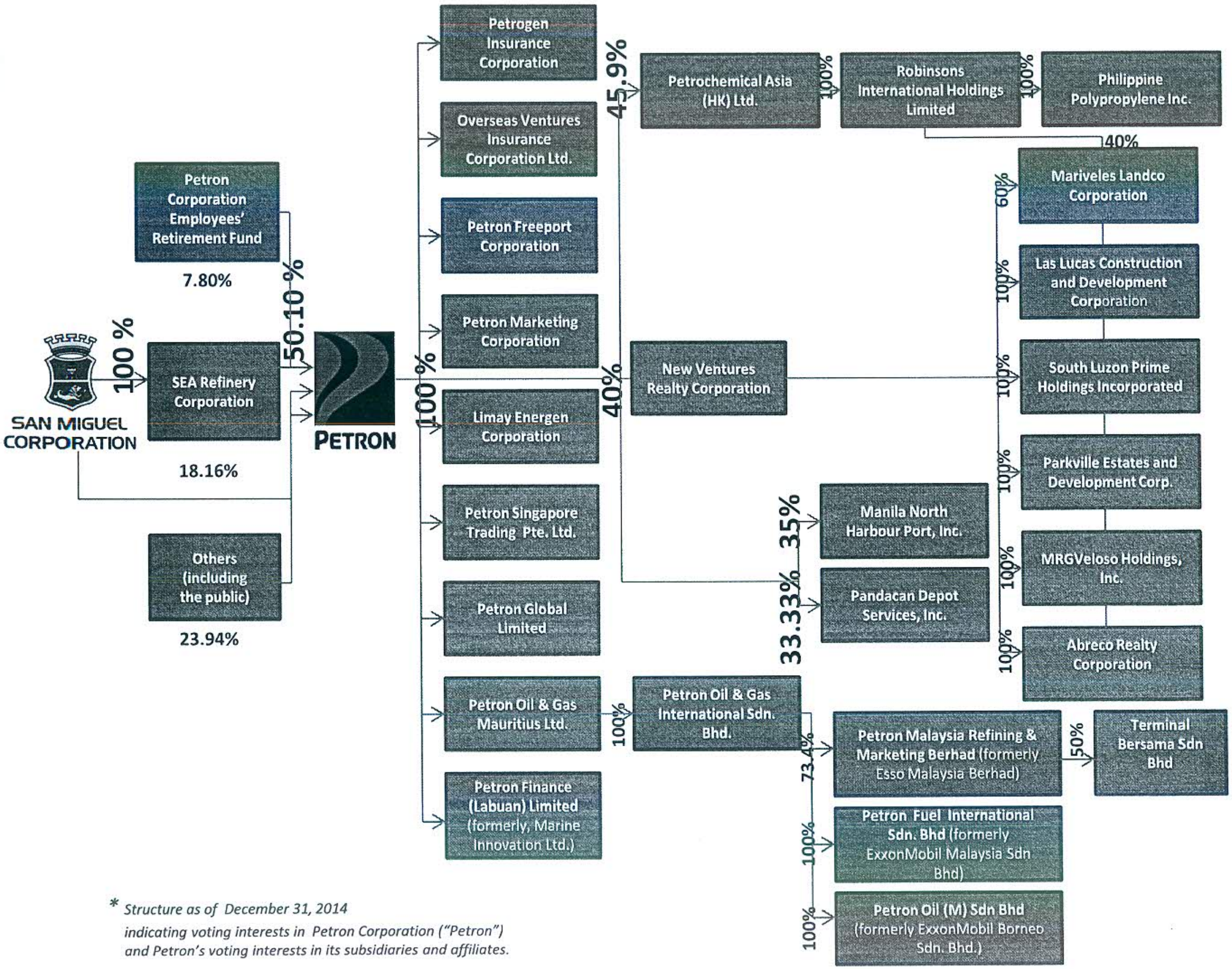
PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2014
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER		Outstanding Balance		Amount Shown as Current		Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes:										
Peso denominated:										
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
			23,492		32		23,357			
Foreign currency - denominated										
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
			49,710		5,828		48,772			
Total Long-term Debt		P	73,202	P	5,860	P	72,129			

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 Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary			✔	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	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		✔	
PFRS 2	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'			✔
PFRS 3 (Revised)	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		✔	
PFRS 4	Insurance Contracts	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
PFRS 5	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 Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	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		✔	
PFRS 8	Operating Segments	✔		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments		✔	
PFRS 9	Financial Instruments		✔	
	Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39		✔	
PFRS 9 (2014)	Financial Instruments		✔	
PFRS 10	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		✔	
PFRS 11	Joint Arrangements	✔		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations		✔	
PFRS 12	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 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 (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 Effective as of December 31, 2014		Adopted	Not Adopted	Not Applicable
PAS 19 (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 (Revised)	Borrowing Costs	✔		
PAS 24 (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 (Amended)	Separate Financial Statements	✔		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		✔	
PAS 28 (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 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 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			✔
Philippine Interpretations Committee Questions and Answers				
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 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 available for dividend distribution, beginning*		**P9,039,519**
Add: Net income actually earned/realized during the period		
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 those attributable to cash and cash equivalents)	171,462	
Fair value gains arising from mark-to-market measurement	850,453	
Equity in net income of associates/joint venture	-	
Retirement benefits income	7,996	
Other unrealized gains or adjustments to the retained earnings as a result of certain 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 - loss	-	
Loss on fair value adjustment of investment property	-	
Net income actually earned during the period	**1,551,163**	**1,551,163**
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	-	
	(5,162,657)	**(5,162,657)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**P 5,428,025**