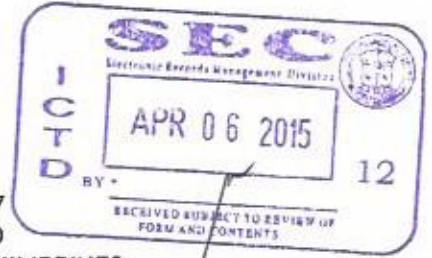




SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND  
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended December 31, 2014  
Date of Report (Date of earliest event reported)
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. PETRON CORPORATION ("Petron" or the "Company")  
Exact name of issuer as specified in its charter
5. Philippines 6.  (SEC Use Only)  
Province, country or other jurisdiction of incorporation Industry Classification Code:
7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550  
Address of principal office Postal Code
8. (0632) 886-3888; 884-9200  
Issuer's telephone number, including area code
9. None  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (as of December 31, 2014)
Common Stock	9,375,104,497 shares
Preferred Stock <sup>1</sup>	100,000,000 shares
Preferred Series 2A	7,122,320 shares
Preferred Series 2B	2,877,680 shares
 Total Liabilities	 P 277,632 million

<sup>1</sup> Redeemed on March 5, 2015 and delisted from the Philippine Stock Exchange on March 6, 2015.

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

Yes  No

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

Philippine Stock Exchange

Common Stocks  
Preferred Stocks  
• PPRF<sup>2</sup>  
• PRF2A  
• PRF2B

<sup>2</sup>Redeemed on March 5, 2015 and delisted from the Philippine Stock Exchange on March 6, 2015.

12. Check whether the registrant:

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

Yes  No

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

Yes  No

13. The aggregate market value of the voting stock held by non-affiliates of the Company (*i.e.*, other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and directors and executive officers of Petron Corporation) as of December 31, 2014 totaling 2,243,923,093 common shares was ₱23,785,584,785.80 based on the price of ₱10.60 per share as of December 29, 2014, the last trading day of 2014. Petron had a public ownership of 23.77% as of December 31, 2014. The aggregate market value of the voting stock held by non-affiliates of the Company as of February 28, 2015 totaling 2,243,598,093 common shares was ₱22,929,572,510.46 based on the price of ₱10.22 per share as of February 27, 2015, the last trading day of February 2015. Petron had a public ownership of 23.77% as of February 28, 2015. Attached hereto as Annexes A and B are the public ownership reports of the Company as of December 31, 2014 and February 28, 2015, respectively.

#### DOCUMENTS INCORPORATED BY REFERENCE

None

## PART I - BUSINESS AND GENERAL INFORMATION

### (A) Description of Business

#### (1) Business Development

##### (i) The Company

Petron Corporation (“Petron” or the “Company”) was incorporated in the Philippines in 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.

On March 13, 2008, Aramco Overseas Company B.V. (“AOC”), then one of the Company’s major shareholders since 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, San Miguel Corporation (“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 articles of incorporation of the Company (the “Company’s Articles”) and its by-laws (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 Securities and Exchange Commission (“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 Philippine Stock Exchange (“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, the Petron Corporation Employees' Retirement Plan ("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 refinery of Petron in Bataan (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 under Malaysian laws. 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 by the first quarter of 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, liquefied petroleum gas (“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 fuel 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 in Malaysia and appointed distributors. PMRMB exports LSWR and naphtha from the PDR.

The above-listed 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.

## **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 Department of Transportation and Communications ("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 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 9<sup>th</sup> *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* had 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 (9<sup>th</sup> 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 the goal of the Department of Environment and Natural Resources ("DENR") 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 Petron**

### **(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 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 contributed 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 jeeps, 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 Petroliaam 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, 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**

The Company’s intellectual property registrations and applications as of December 31, 2014 are described below.

**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 (Tradenname), 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**

- Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3%. 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/cocometyl 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 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; 474 employees of the Company’s Malaysian operations; seven (7) in PSTPL; and 131 in PMC and PFC.

Petron has CBA’s with its three (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) 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 a major risk if it assesses the risk event to both have 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.

## **(B) 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.

## **(C) Contingent Liabilities**

Petron is involved in certain cases, the material of which are discussed below:

### **1. 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 Court of Tax Appeals (“CTA”) the collection by the Bureau of Internal Revenue (“BIR”) of deficiency excise taxes arising from the Company’s acceptance and use of tax credit certificates (“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 Court of Appeals (“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 was still pending as of December 31, 2014.

## 2. Pandacan Cases

### a. *Petron Corporation v. The City of Manila, et al.*

**Civil Case No. 07-116700**

RTC Manila Br. 41

Date Filed: February 8, 2007

**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. On September 25, 2012, Petron 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 Petron. As an update, 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. 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: The appeal filed by Petron on January 23, 2013 was still pending as of December 31, 2014.

**b. Social Justice Society (“SJS”) 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 Supreme Court (“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.

**c. 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 Jose L. 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 January 5, 2015, Petron filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision. The manifestation conveyed the understanding of Petron that the submission of the comprehensive plan and relocation schedule as required by the SC is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance No. 8119.

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

Status: The case was still pending as of December 31, 2014. The Resolution dated March 10, 2015 discussed below as an update was declared by the SC as final.

Update: On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and the 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.”

### **3. Guimaras Oil Spill**

#### **a. 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 Special Board of Marine Inquiry (“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, 2012.

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 was still pending with the DOTC as of December 31, 2014.

- b. **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 m). 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.

## PART II - SECURITIES OF THE REGISTRANT

### (A) Market Price of and Dividends on Registrant’s Common Equity and Related Stockholder Matters

#### (1) Market Information

Petron’s common and preferred shares are traded at the PSE.

As of December 31, 2014, the total number of stockholders of the Company was 151,189. As of December 31, 2013, the total number of stockholders of the Company was 153,383.

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.

#### Common Shares

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 period ended February 2015 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2015</b>				
For period ended February 28, 2015	10.62	February 20	9.04	January 29
<b>2014</b>				
1 <sup>st</sup> 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
<b>2013</b>				
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 7, 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 period ended February 2015 are indicated in the table below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2015</b>				
For period ended February 28, 2015	101.80	January 5	100.10	January 8
<b>2014</b>				
1 <sup>st</sup> Quarter	109.00	January 6, 7, 8 & 29	105.60	March 31
2 <sup>nd</sup> Quarter	107.00	May 9	101.50	June 17
3 <sup>rd</sup> Quarter	104.00	August 12	100.00	August 19
4 <sup>th</sup> Quarter	102.70	October 14 & November 18	100.20	December 22
<b>2013</b>				
1 <sup>st</sup> Quarter	110.40	February 12	107.10	February 1 & 18
2 <sup>nd</sup> Quarter	115.00	April 15	109.40	April 1
3 <sup>rd</sup> Quarter	112.00	August 2	108.70	August 27
4 <sup>th</sup> 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 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 (the “Series 2A Preferred Shares”) and the Series 2B preferred shares amounting to ₱2.88 billion (the “Series 2AB Preferred Shares”). 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 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 below:

Period	Highest Close		Lowest Close	
	Price (in Peso)	Date	Price (in Peso)	Date
<b>2015</b>				
For period ended February 28, 2015	1,048.00	February 4	1,005.00	January
<b>2014</b>				
4 <sup>th</sup> 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 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:

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

## (2) Holders

The lists of the top 20 stockholders of the common shares and preferred shares of the Company as of December 31, 2014 are set out below.

As discussed above, the PPREF Shares were redeemed by the Company on March 5, 2015 and delisted by the PSE on March 6, 2015.

### Common Shares

Rank	Stockholder Name	Common Shares	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)	1,242,965,877	1,242,965,877	13.258155%
4	PETRON CORPORATION EMPLOYEES RETIREMENT PLAN	731,156,097	731,156,097	7.798911%
5	PCD NOMINEE CORP. (NON-FILIPINO)	530,739,002	530,739,002	5.661153%
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	2,310,000	2,310,000	0.024640%
16	SHAHRAH RAHMANIFARD	2,000,000	2,000,000	0.021333%
17	ANTHONY CHUA CHIACO	1,953,000	1,953,000	0.020832%
18	KRISTINE CHUA CHIACO	1,901,000	1,901,000	0.020277%
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%
		<u>8,956,852,100</u>	<u>8,956,852,100</u>	<u>95.538691%</u>

Total Number of Shares :	9,375,104,497
Total Number of Accounts:	151,037

## PPREF Shares

Rank	Stockholder Name	Preferred Shares	Total Shares	% of O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	89,652,030	89,652,030	89.652030%
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 FOODS INC. RETIREMENT PLAN	455,000	455,000	0.455000%
7	SAN MIGUEL YAMAMURA PACKAGING CORP. RETIREMENT PLAN	455,000	455,000	0.455000%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	368,680	368,680	0.368680%
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%
		<b>98,892,200</b>	<b>98,892,200</b>	<b>98.892200%</b>

Total Number of Shares : 100,000,000

Total Number of Accounts: 124

## Series 2A Shares

Rank	Stockholder Name	Preferred Shares	Total Shares	% of O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	7,111,600	7,111,600	99.849487%
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	6,570	6,570	0.092245%
3	LORD ALLAN JAY Q. VELASCO	2,000	2,000	0.028081%
4	ZENAIDA M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.014040%
5	PATRICIO A. LIM OR SUSANA M. GERALDO	500	500	0.007020%
6	ARNEL JOSE S. BANAS OR RUFINA S. ELCANO OR MELIZA B. ZULUETA	150	150	0.002106%
7	JULIE U. CERENO	100	100	0.001404%
8	FLORA M. ROSALES	50	50	0.000702%
9	RICARDO V. LIM OR VIOLETA N. LIM	50	50	0.000702%
10	STEPHANIE N. LIM	50	50	0.000702%
11	MERLINE S. DELA CRUZ	50	50	0.000702%
12	MELIZA B. ZULUETA OR PATRICIA NEIL OR PAOLO GABRIEL OR PIA YSABEL ZU	50	50	0.000702%
13	MARIA THERESA T. DY OR MARC ANDREW DY	50	50	0.000702%
14	YASMIN M. MALLARI OR ERIC G. MALLARI	50	50	0.000702%
15	ERNESTO G. GASMEN OR KATHERINE G. HONORAS	50	50	0.000702%
		<b>7,122,320</b>	<b>7,122,320</b>	<b>100.000000%</b>

Total Number of Shares : 7,122,320

Total Number of Accounts: 15

## Series 2B Shares

Rank	Stockholder Name	Preferred Shares	Total Shares	% of O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	2,857,780	2,857,780	99.308471%
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	9,500	9,500	0.330127%
3	FRANCISCO S. ALEJO &/OR CYNTHIA ALEJO &/OR ANNA MELISSA A. ACOP	3,000	3,000	0.104251%
4	ENRIQUE DELA LLANA YUSINGCO	2,000	2,000	0.069500%
5	FELIX B. CHAVEZ &/OR AIDA T. CHAVEZ OR IRENE T. CHAVEZ	1,500	1,500	0.052125%
6	DEWEY T. TAN	1,000	1,000	0.034750%
7	ZENAIDA M. POSTRADO OR RENATO POSTRADO	1,000	1,000	0.034750%
8	ROBERTO D. DE LEON	650	650	0.022588%
9	BAILEY R. YU, JR.	350	350	0.012163%
10	FLORDELIZA C. CRUZ	350	350	0.012163%
11	ANGELO DE GUZMAN MACABUHAY	300	300	0.010425%
12	FRANCES ANTOINETTE C. CRUZ	200	200	0.006950%
13	CYNTHIA N. CUSTODIO	50	50	0.001738%
		<b>2,877,680</b>	<b>2,877,680</b>	<b>100.000000%</b>

Total Number of Shares : 2,877,680  
 Total Number of Accounts: 13

### (3) 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 dividends for the PPREF Shares is 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 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. Since the listing of the preferred shares in March 2010, cash dividends were 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 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 2014.



### Dividend Declarations and Payments

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) ₱17.14575 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.

In 2012, the Board of Directors approved on March 7 a cash dividend of ₱0.10 per share to common shareholders as of the April 2, 2012 record date. The dividends were paid on April 24, 2012. A cash dividend of ₱2.382 per PPREF Share was also declared on March 7, 2012 for the second and third quarters of 2012 based on the following record and payment dates: May 18, 2012 and August 16, 2012 record dates and June 5, 2012 and September 5, 2012 payment dates. On August 9, 2012, the Board of Directors also approved a cash dividend of ₱2.382 per PPREF Share for the fourth quarter of 2012 and the first quarter of 2013 with following record and payment dates: November 16, 2012 and February 20, 2013 record dates and December 5, 2012 and March 5, 2013 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.

#### **(4) Recent Sales of Unregistered or Exempt Including Recent Issuances of Securities Constituting an Exempt Transaction**

Under the Securities and Regulation Code (the “Code”) and the Amended Implementing Rules and Regulations of the Securities Regulation Code (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. By way of update, the securities offered in 2013 until the date of this annual report are also described below.

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%.
  - e. 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. ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars
  - 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. US\$750 Million Undated Subordinated Capital Securities

- 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 with 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.

## **(B) 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 Annual 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.

## **(C) 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.

## **(D) Public Ownership**

Based on the report provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 23.77% of the outstanding common shares of the Company was owned by the public as of December 31, 2014 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annex A is the public ownership report of the Company as of December 31, 2014.

*[Rest of page intentionally left blank;  
“Part III - Management’s Discussion and Analysis  
of Financial Conditions and Other Information” follows on next page]*

## PART III - 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 (MMB)**, 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 (MMB)** 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% (P 80 million) and settled at **P 242 million** on account of temporary differences of PM.

**Goodwill** decreased by 5% (P 465 million) to **P 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 P 20.85 billion to **P 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 **P 157.42 billion** and posted a 13% increase from P 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 P 39.14 billion** increased by 34% from the P 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 P 98 million** went lower from the P 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% (P 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 P 73 million** dipped by 62% from P 194 million in December 2013 traced from lower taxes payable of Petron Malaysia.

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

**Deferred tax liabilities-net** dropped by P 1.13 billion (25%) to **P 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 **P 1.66 billion** from P 1.0 billion in December 2013 due to the recognition of ARO of the Refinery.

**Other noncurrent liabilities** declined by 70% to **P 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 P 19.65 billion more than doubled the P 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 **P 1.02 billion** due to the recognition of actuarial losses in the remeasurement of PP's plan asset.

**The negative P 2.15 billion Other reserves** as of end-December 2014 almost tripled the negative P 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 P 1.56 billion from P 17.92 billion to **P 16.36 billion** prompted by PGL and PMRMB's payment of dividends to preferred and common stockholders, respectively.

### **2013 vs 2012**

Petron's **consolidated assets** as of December 31, 2013 stood at **P 357.46 billion, 28% (P 77.13 billion)** higher than the P 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 P 23.43 billion to **P 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 **P 783 million** substantially exceeded 2012's P 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 P 9.94 billion to **P 67.67 billion** prompted by the increases in PP's receivables from government and customers.

**Other current assets** of **P 12.93 billion** stood higher by 20% from 2012's P 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% (P 37.54 billion) from P 104.11 billion to **P 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 P 1.64 billion to **P 885 million**.

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

**Other noncurrent assets-net** increased by 12% or P 2.2 billion to **P 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 P 14.08 billion to **P 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% (P 14.42 billion) to **P 29.29 billion** brought about by higher liabilities to company's contractors and suppliers.

**Derivative Liabilities** decreased by 38% from P 245 million to **P 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 **P 194 million** went beyond the P 52 million level in 2012 basically on account of the taxes payable of PM.

**Long-term debt inclusive of current portion** increased by 18% (P 10.17 billion) to **P 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 P 983 million to **P 820 million** mainly from PM's actuarial gain recorded this year.

**Deferred tax liabilities** moved up by 47% (P 1.46 billion) to **P 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% (P 2.10 billion) to **P 4.54 billion** principally due to additional retention payable to contractors.

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

### **2012 vs 2011**

Petron ended 2012 with **total assets** of **P 280.33 billion** (as restated), 57% or P 101.21 billion higher than the end-December 2011 level of P 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 **P 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 P 237 million to **P 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 **P 57.73 billion**, more than double the P 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 P 37.76 billion to **P 49.58 billion** chiefly due to the consolidation of PM's inventories.

**Other current assets** of **P 10.75 billion** also registered a 31% increase from 2011's P 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 **P 588 million** from 2011's P 10 million mainly due to the reclassification of Petron MegaPlaza units and parking spaces which resulted in the decline in **Investment Property - net**, from P 794 million to **P 115 million**.

**Property, plant and equipment-net** escalated to **P 104.11 billion** (as restated) from the December 2011 balance of P 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 BIR issued a deficiency excise tax assessment against the Company relating to the Company's use of P659 million worth of TCC 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 CTA. In July 1999, the CTA ruled that, as a fuel supplier of 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 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 was still pending as of December 31, 2014.

#### 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, Shell and 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. On September 25, 2012, the 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 Company. 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. The appeal was still pending as of December 31, 2014.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinder 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 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 were still pending as of December 31, 2014.

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

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

### Seasonal aspects that has material effect on the FS

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

### Financial Statements

The 2014 audited financial statements of Petron and its subsidiaries and the Statement of Management Responsibility are attached hereto as Annex "C", with the Supplementary Schedules as Annex "D".

### 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 <sup>1</sup>	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

<sup>1</sup> 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 existing 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 for such years at each relevant annual stockholders' meeting.

Set out on the following page is the report of the Audit Committee for the year 2014.

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report of the Audit Committee follows on next page]*

## AUDIT COMMITTEE REPORT

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

### **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 were no changes in and disagreements with accountants on accounting and financial disclosure.

*[Rest of page intentionally left blank;  
"Part IV - Management and Certain Security Holders" follows on next page]*

## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### (A) Directors, Executive Officers and Board Committees of the Registrant

#### (i) Director and Executive Officers

Listed below are the 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 until the date of this Annual Report.

#### 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 <sup>1</sup>
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

<sup>1</sup>Previously served as a Director of the Company from 1974 to 1986.

Set out below are the profiles of the Directors of the Company as of the date of this Annual Report.

**Eduardo M. Cojuangco, Jr.**, Filipino, born 1935, has served as the Chairman of the Company since February 10, 2015 and a Director since January 8, 2009. He is also the Chairman of the Executive Committee and the Compensation Committee of the Company. 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 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, GSMI and San Miguel Pure Foods Company, Inc. (“SMPFC”) 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 Chairman, 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. and Petron Oil & Gas International Sdn Bhd.; 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 Chief Executive Officer 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 holds directorships, SMC, Liberty Telecoms, GSMI, SMPFC and Top Frontier are also listed with the PSE. Previously, Mr. Ang was the 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 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, 31<sup>st</sup> 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 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 from February 2009 to June 2010, the Secretary of the Department of Transportation and Communications from July 2010 to June 2011 and the President and Chief Executive Officer of Manila North Tollways Corporation from January 2000 to December 2008. He was *Lux in Domino Awardee* (Most Outstanding Alumnus) of the Ateneo de Manila University in July 2012. He is also Director of Nationwide Development Corporation and KingKing Gold & Copper Mines, Inc. He is a Trustee of Bantayog ng mga Bayani Foundation, Eisenhower Fellowship Association of the Philippines, 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.



**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 including: Manager of Baytown Refinery; Corporate Planning Manager; Vice President for Refining; Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc. He holds a degree in Mechanical Engineering from Purdue University.

**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, Petron Oil & Gas Mauritius Ltd., Petron Oil & Gas International Sdn Bhd, 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 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 private and public 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.

**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-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 21<sup>st</sup> 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.

#### Board Attendance and Trainings in 2014

Set out below is the list of the directors of the Company and the directors’ attendance at meetings held in 2014. All the directors of the Company 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

## **Executive Officers**

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

<b>Name</b>	<b>Position</b>	<b>Date of Election</b>
Ramon S. Ang	President and Chief Executive Officer	<ul style="list-style-type: none"><li>• As President: February 10, 2015 - present;</li><li>• As Chief Executive Officer: January 2009 - present</li></ul>
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
Ma. Rowena Cortez	Vice President - Supply	September 2009-present
Albertito S. Sarte	Vice President - Treasurers and Treasurer	August 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, as of the date of this Annual Report.

**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.

**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.

**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.

**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 RMP-2 project and has held various positions in the Company, including Operations Manager and Technical Services Manager, and different supervisory and managerial positions at the 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 has 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.

#### Officer Trainings in 2014

All the executive officers of the Company, including 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.

#### (ii) Board Committees

The Company has Executive, Compensation, Audit, Nomination and Governance Committees constituted in accordance with the principles of good corporate governance and pursuant to the Company's By-Laws.

- **Executive Committee.** The Executive Committee is composed of not less than three (3) members, which shall include the Chairman of the Board of Directors and the President, with two (2) alternate members. The Executive Committee, when the Board of Directors of Directors is not in session, may exercise the powers of the latter in the management of the business and affairs of the Company, except with respect to (a) the approval of any action for which stockholders' approval is also required, (b) the filling of vacancies in the Board of Directors, (c) the amendment or repeal of the by-laws of the adoption of new by-laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable, (e) a distribution of dividends to the stockholders, and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

As of the date of this Annual Report, the Executive Committee is chaired by Mr. Eduardo M. Cojuangco, Jr. with Mr. Ramon S. Ang and Mr. Lubin B. Nepomuceno as members. Atty. Virgilio S. Jacinto and Mr. Eric O. Recto are the two (2) alternate members of the Executive Committee.

In 2014, the Executive Committee held 10 meetings, with attendance as shown below. The resolutions approved by the Executive Committee were passed with the unanimous vote of the committee members in attendance (whether regular members or alternate members) and later presented to and ratified by the Board of Directors at the board meeting held after each approved resolution.

Director's Name	January 10	February 14	March 26	April 22	May 9	August 18	September 3	October 29	November 24	December 5
Ramon S. Ang	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aurora T. Calderon*	N/A	N/A	✓	✓	✓	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Roberto V. Ongpin**	✓	✓	–	–	–	–	–	–	–	–
Eric O. Recto***	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Legend:

✓ Present – Absent \*Became a regular member on May 20, 2014 \*\* Ceased as director on May 20, 2014 \*\*\* Alternate Member

- **Nomination Committee.** The Nomination Committee is composed of three (3) directors with an independent director serving as its Chairman and with the Corporate Secretary acting as its secretary.

The Nomination Committee is responsible for pre-screening and shortlisting candidates nominated to become members of the Board of Directors and other appointments that require board approval to ensure that the director-candidates meet the criteria for election, *i.e.*, they have the qualifications and none of the disqualifications set out in the law and in the CG Manual. The Nomination Committee, in consultation with the management committee and the under the supervision of the Board of Directors, also redefines the role, duties and responsibilities of the Chief Executive Officer of the Company by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. It is also the responsibility of the Nomination Committee to assess the effectiveness of the processes and procedures of the Board of Directors in the election or replacement of directors.

The Nomination Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company, with Atty. Estelito P. Mendoza and Atty. Virgilio S. Jacinto as members. Atty. Jacinto acted as advisor to the Nomination Committee until his election as a member of the committee on May 21, 2013.

In 2014, the Nomination Committee held three (3) meetings on March 24, May 6 and July 3, with the attendance of the members as follows:

Director's Name	March 24	May 6	July 3
Reynaldo G. David	✓	✓	✓
Estelito P. Mendoza	✓	✓	–
Virgilio S. Jacinto	✓	✓	✓

Legend: ✓ - Present – - Absent

- **Compensation Committee.** The Compensation Committee is composed of five (5) members of the Board of Directors, one of whom is an independent director. The Chairman and the President of the Corporation are included as members but without voting rights. The Chairman of the Board of Directors is the Chairman of the Compensation Committee.

Under the CG Manual, the Compensation Committee is responsible for considering and approving salary structures for individuals in the positions of Vice President (or its equivalent) and above, promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions, and other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans. The Compensation Committee also ensures that the Company's annual reports, information and proxy statements, and such similar documents disclose the fixed and variable compensation received by its directors and top officers for the preceding fiscal year in accordance with the requirements of the law.

As of the date of this Annual Report, the Compensation Committee was chaired by Mr. Eduardo M. Cojuangco with Mr. Ramon S. Ang (non-voting), Mr. Lubin B. Nepomuceno, Mr. Reynaldo G. David and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acted as the advisor to the Compensation Committee.

- **Audit Committee.** The Audit Committee is composed of five (5) members of the Board of Directors, two (2) of whom are independent directors. All the members of the Audit Committee are required to have adequate accounting and finance backgrounds and at least one member with audit experience, in addition to the qualifications of a director. The Chairman of the Audit Committee is further required by the Manual and the Audit Committee Charter to be an independent director.

The Audit Committee is governed by the Audit Committee Charter, revisions to which to make it compliant with SEC Commission Memorandum Circular No. 4, Series of 2012 were approved by the Board of Directors on November 12, 2012 (the "Audit Committee Charter").

Among the other functions set out in the CG Manual and the Audit Committee Charter, the Audit Committee primarily recommends to the Board each year the appointment of the external auditor to examine the accounts of the Company for that year and performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties, and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.

The Audit Committee is chaired by Mr. Reynaldo G. David, an independent director of the Company, and its members are Former Chief Justice Artemio V. Panganiban (another independent director of the Company), Atty. Estelito P. Mendoza, Mr. Lubin B. Nepomuceno, and Ms. Aurora T. Caderon. Mr. Ferdinand K. Constantino acts as advisor to the committee.



In 2014, the Audit Committee held five (5) meetings on March 24, May 6, July 3, August 6 and November 7. The attendance of the members was as follows:

Director's Name	March 24	May 6	July 3	August 6	November 7
Reynaldo G. David	✓	✓	✓	✓	✓
Estelito P. Mendoza	✓	✓	–	–	✓
Artemio V. Panganiban	✓	✓	✓	✓	✓
Lubin B. Nepomuceno	✓	✓	✓	✓	✓
Aurora T. Calderon	✓	✓	✓	✓	✓

Legend: ✓ - Present – - Absent

- **Governance Committee.** The Governance Committee, created by the Board of Directors on July 3, 2014, is composed of three (3) members of the Board of Directors, one of whom is an Independent Director.

Under the CG Manual, the Governance Committee shall 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 Governance Committee is chaired by Mr. Margarito B. Teves, an independent director of the Company, and its members are Attys. Virgilio S. Jacinto and Nelly Favis-Villafuerte.

The Governance Committee, newly created in July 2014, did not hold any meeting in 2014.

### (3) Significant Employees

There was no significant employee or personnel who was not an executive officer but was expected to make a significant contribution to the business.

### (4) Family Relationships

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

### (5) 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.

## (B) Executive Compensation

**Standard Arrangements.** Petron's executive officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not executive officers are elected for a term of one year. They receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

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

**Warrants or Options.** There are no warrants or options held by directors or officers.

**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.

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows (including the estimate for 2015):

<i>(a) Name &amp; Principal Position</i>		<i>(b) Year</i>	<i>(c) Salary</i>	<i>(d) Bonus</i>	<i>(e) Other Annual Compensation</i>
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	-

**(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2014**

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of December 31, 2014 is as follows:

• SEA Refinery Corporation	-	50.10%
• San Miguel Corporation	-	18.16%
• PCD Nominee Corporation (Filipino)	-	13.26%
• Petron Corporation Employees' Retirement Plan	-	7.80%
• PCD Nominee Corporation (non-Filipino)	-	5.66%

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

The Company had no beneficial owner under the PCD Nominee Corporation that held no more than 5% of the common shares of the Company.

*[Rest of page intentionally left blank;  
the security ownership of the directors and executive officers  
follows on next page]*

The security ownership of directors and executive officers holding office as of December 31, 2014 was as follows:

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Directors</b>					
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.

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (I)	Percentage of Ownership
<b>Executive Officers</b>					
Common	Emmanuel E. Eraña	Filipino	-	-	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	60,000	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	-	-	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	D	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.
<b>Directors and Executive Officers as a Group</b>		Common	269,183		<b>0.00%</b>
		Preferred	405,500		<b>0.00%</b>
		Series 2A Preferred	38,400		<b>0.00%</b>
		Series 2B Preferred	-		<b>0.00%</b>

As of December 31, 2014, the directors and executive officers of the Company owned 269,183 common shares, 405,500 preferred shares and 38,400 Series 2A Preferred Shares for a total of 713,083 shares or 0.0075% of the Company's total outstanding capital stock. None of the directors and executive officers of the Company directly owned 5% or more of the outstanding capital stock of the Company.

**(2) Voting Trust Holders of 5% or more**

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

**(3) 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.

**(D) Certain Relationships and Related Transactions**

The major stockholders of the Company as of December 31, 2014 were 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 had no transactions or proposed transactions with any of its directors or officers.

Related party transactions are discussed under Part I(A)(2)(viii) (*Transactions with and/or dependence on related parties*).

*[Rest of page intentionally left blank;  
“Part IV - Corporate Governance” follows on next page]*

## PART IV - CORPORATE GOVERNANCE

### Among the Top 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.

### Annual Corporate Governance Report

For a discussion on the corporate governance of the Company, please refer to the report “Annual Corporate Governance Report for 2012 (Consolidated Changes for 2014)” attached as Annex E.

*[Rest of page intentionally left blank;  
“Part V - Exhibits and Schedules” follows on next page]*

## PART V - EXHIBITS AND SCHEDULES

### Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2014 until the date of this report.

#### Annexes

1. Annex A - Public Ownership Report as of December 31, 2014
2. Annex B - Public Ownership Report as of February 28, 2015
3. Annex C - 2014 Audited Financial Statements
4. Annex D - Index to Financial Statements & Supplementary Schedules
5. Annex E - Annual Corporate Governance Report for 2012 (Consolidated Changes for 2014)

#### Reports on SEC Form 17-C

The following reports on SEC Form 17-C were made for year 2014 until the date of this Annual Report:

March 24, 2014	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. Holding of the Annual Stockholders' Meeting on May 20, 2014</li> <li>2. 2013 Audited Financial Statements</li> <li>3. Cash dividend for common shareholders</li> </ol>
March 27, 2014	<p>Approval by the Executive Committee of the execution of the Placement Agreement relating to the sale of 470,000,000 common shares of the Petron Corporation Employees' Retirement Plan</p>
May 6, 2014	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. Year-to-Date March 2014 Financial Performance Report</li> <li>2. Endorsement of the re-appointment of R. G. Manabat &amp; Co./KPMG (formerly "Manabat Sanagustin &amp; Co.") as independent external auditor of the Company for the year 2014</li> <li>3. Cash dividend for preferred shareholders</li> <li>4. Amendment of the Articles of Incorporation to indicate the change in the principal office of the Company from "Metro Manila" to the San Miguel Head Office Complex address and presentation of the amendment to the stockholders at the annual stockholders' meeting on May 20, 2014 for ratification</li> </ol> <p>Media release on performance also submitted.</p>
May 20, 2014	<p>Matters approved at the annual stockholders' and organizational meetings held:</p> <p>A. Annual Stockholders' Meeting</p> <ol style="list-style-type: none"> <li>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</li> <li>2. Appointment of R.G. Manabat &amp; Co. as independent external auditor of the Company for year 2014</li> </ol>



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 |

(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

July 3, 2014	<p>Matters approved at the special board meeting held:</p> <ol style="list-style-type: none"> <li>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</li> <li>2. Appointment of the following members and officers of the newly created Governance Committee: <ul style="list-style-type: none"> <li>Margarito B. Teves - Chairman</li> <li>Virgilio S. Jacinto - Member</li> <li>Nelly Favis-Villafuerte - Member</li> <li>Joel Angelo C. Cruz - Committee Secretary</li> </ul> </li> <li>3. Appointment of Mr. Fernando S. Magnayon as Assistant Vice President - LPG, Lubes and Greases</li> </ol>																																
August 6, 2014	<p>Matters approved at the board meeting held:</p> <ol style="list-style-type: none"> <li>1. 1<sup>st</sup> Semester 2014 Financial Statements</li> <li>2. Issuance of preferred shares with features to be determined by the Executive Committee</li> <li>3. Cash dividend for preferred shareholders</li> </ol> <p>Media release on performance also submitted.</p>																																
August 7, 2014	<p>Filing of Certificates of Attendance of the following directors and officers at the Corporate Governance Seminar held on August 5, 2014:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Name</th> <th style="text-align: left;">Position</th> </tr> </thead> <tbody> <tr><td>1. Lubin B. Nepomuceno</td><td>Director / President</td></tr> <tr><td>2. Mirzan Mahathir</td><td>Director</td></tr> <tr><td>3. Romela M. Bengzon</td><td>Director</td></tr> <tr><td>4. Nelly Favis-Villafuerte</td><td>Director</td></tr> <tr><td>5. Reynaldo G. David</td><td>Director</td></tr> <tr><td>6. Margarito B. Teves</td><td>Director</td></tr> <tr><td>7. Emmanuel E. Eraña</td><td>SVP and Chief Finance Officer</td></tr> <tr><td>8. Susan Y. Yu</td><td>VP, Procurement</td></tr> <tr><td>9. Rowena O. Cortez</td><td>VP, Supply</td></tr> <tr><td>10. Freddie P. Yumang</td><td>VP, Refinery</td></tr> <tr><td>11. Archie B. Gupalor</td><td>VP, National Sales</td></tr> <tr><td>12. Efren P. Gabrillo</td><td>VP, Controllers and Controller</td></tr> <tr><td>13. Albert S. Sarte</td><td>VP, Treasurers and Treasurer</td></tr> <tr><td>14. Rodolfo L. Tablante</td><td>VP, Operations</td></tr> <tr><td>15. Joel Angelo C. Cruz</td><td>VP, General Counsel and Corporate Secretary/Compliance Officer</td></tr> </tbody> </table>	Name	Position	1. Lubin B. Nepomuceno	Director / President	2. Mirzan Mahathir	Director	3. Romela M. Bengzon	Director	4. Nelly Favis-Villafuerte	Director	5. Reynaldo G. David	Director	6. Margarito B. Teves	Director	7. Emmanuel E. Eraña	SVP and Chief Finance Officer	8. Susan Y. Yu	VP, Procurement	9. Rowena O. Cortez	VP, Supply	10. Freddie P. Yumang	VP, Refinery	11. Archie B. Gupalor	VP, National Sales	12. Efren P. Gabrillo	VP, Controllers and Controller	13. Albert S. Sarte	VP, Treasurers and Treasurer	14. Rodolfo L. Tablante	VP, Operations	15. Joel Angelo C. Cruz	VP, General Counsel and Corporate Secretary/Compliance Officer
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15. Joel Angelo C. Cruz	VP, General Counsel and Corporate Secretary/Compliance Officer																																

	<p>16. Jhoanna Jasmine M. Javier-Elacio  17. Ronaldo T. Ferrer</p> <p>Legal Manager and Assistant Corporate Secretary  Internal Audit Head</p>
August 22, 2014	Disclosure on the agreement to sell 380,000,000 common shares of Petron Corporation Employees' Retirement Plan through the facilities of the Philippine Stock Exchange
September 4, 2014	Approval by the Executive Committee of the public offering of preferred shares
September 29, 2014	<p>Filing of Certificates of Attendance of the following directors at the Corporate Governance Seminars held on September 19, 2014 and September 26, 2014:</p> <p><u>September 19, 2014</u></p> <ol style="list-style-type: none"> <li>1. Mr. Eduardo M. Cojuangco, Jr.</li> <li>2. Atty. Estelito P. Mendoza</li> <li>3. Ms. Aurora T. Calderon</li> <li>4. Atty. Virgilio S. Jacinto</li> </ol> <p><u>September 26, 2014</u></p> <ol style="list-style-type: none"> <li>1. Mr. Jose P. De Jesus</li> </ol>
October 29, 2014	Approval by the Executive Committee of the redemption of the Series B Notes issued by the Company in 2009
November 3, 2014	Media release dated November 3, 2014 entitled "Petron Corp. Lists P10 Billion Preferred Shares in Exchange; Offering Oversubscribed" submitted
November 5, 2014	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled "Petron mulls another overseas acquisition" posted in philSTAR.com on November 4, 2014
November 7, 2014	<p>Matters approved at board meeting held:</p> <ol style="list-style-type: none"> <li>1. Year-to-date September 2014 Financial Statements</li> <li>2. Cash dividend for preferred shareholders</li> <li>3. Redemption of the preferred shares issued in 2010</li> </ol>
November 10, 2014	<p>Filing of Certificates of Attendance of the following directors at the Corporate Governance Seminars held on November 6, 2014 and November 7, 2014:</p> <p>November 6, 2014</p> <ol style="list-style-type: none"> <li>1. Mr. Ramon S. Ang</li> </ol> <p>November 7, 2014</p> <ol style="list-style-type: none"> <li>1. Mr. Ron W. Haddock</li> </ol>

February 12, 2015	Matters approved at the board meeting held: <ol style="list-style-type: none"> <li>1. Election of Mr. Eduardo M. Cojuangco, Jr. as Chairman of both the Board of Directors and the Compensation Committee</li> <li>2. Election of Mr. Ramon S. Ang as President resulting in his holding of the positions of President and Chief Executive Officer</li> <li>3. Election of Mr. Lubin B. Nepomuceno as General Manager</li> </ol>
February 26, 2015	Notice of redemption of the preferred shares issued by the Company in 2010
March 17, 2015	Matters approved at the board meeting held: <ol style="list-style-type: none"> <li>1. Annual Stockholders' Meeting <ol style="list-style-type: none"> <li>a. Date: May 19, 2015</li> <li>b. Record date: April 1, 2015</li> <li>c. Closing of books: April 2-13</li> </ol> </li> <li>3. Cash dividend for common shareholders</li> <li>3. Cash dividends for preferred shareholders</li> <li>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</li> <li>5. Election of Mr. Eduardo M. Cojuangco, Jr. as Chairman of the Executive Committee</li> <li>6. Appointment of Mr. Samuel S. Candido as Assistant Vice President - Refinery Technical Services</li> </ol> <p>Media release on performance also submitted.</p>
March 26, 2015	Response to the request for clarification by the Philippine Stock Exchange on the news article entitled "Petron reigns in spending, seeks cheaper obligation"

### Press Releases

The following press releases were made for year 2014 until the date of this Annual Report:

Disclosure Date	Item Description
March 24, 2014	"Petron Corporation Posts P5.1 Billion Income for 2013"
May 6, 2014	"Petron Revenues Rise by 12% to ₱125 Billion in 1 <sup>st</sup> Quarter 2014"
August 6, 2014	"Petron Posts P3-Billion Income For 1 <sup>st</sup> Half 2014 On Higher Sales"
November 3, 2014	"Petron Corp. Lists P10 Billion Preferred Shares In Exchange; Offering Oversubscribed"
November 7, 2014	"Petron Revenues Up 13% on Stronger Sales in First Nine Months of 2014"
March 17, 2015	"Petron Posts Better-Than-Expected Income In 2014, Sales Volumes Surge 6%"

*[Rest of page intentionally left blank;  
signature page follows on next page]*

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on March 31, 2015.

By:



RAMON S. ANG  
President and Chief Executive Officer



LUBIN B. NEPOMUCENO  
General Manager



EMMANUEL F. ERANA  
Senior Vice President and Chief Finance Officer



EFREN P. GABRILLO  
Vice President - Controllers




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

SUBSCRIBED AND SWORN to before me this 31st of March 2015 at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

Name	Passport Number	Date of Issue (mm-dd-yy)	Place of Issue
Ramon S. Ang	XX0492943	2-22-13	DFA, Manila
Lubin B. Nepomuceno	EB5027219	3-29-12	DFA, Manila
Emmanuel E. Eraña	EC2176330	9-23-14	DFA NCR Central
Efren P. Gabrillo	EB6962099	12-17-12	DFA NCR East
Joel Angelo C. Cruz	EB6976457	12-19-12	DFA, Manila

Doc. No. 484 ;  
Page No. 99 ;  
Book No. II ;  
Series of 2015.

  
CHERYL L. LEN M. VALENZUELA  
Notary Public for Mandaluyong City  
40 San Miguel Avenue, 1550 Mandaluyong City  
Appointment No. 0408-14  
Until December 31, 2015  
Attorney's Roll No. 54621  
PTR No. 2278010/1-5-15/Mandaluyong  
IBP No. 0981413/1-5-15/PPLM  
MCLE Compliance No. IV-0022510/11-21-13



**PCOR**  
**PUBLIC OWNERSHIP REPORT**

**Report Date:** December 31, 2014

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

**Less:**

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000		1,000	0.0000%
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	100,000	100,500	0.0011%
Aurora T. Calderon	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Eric O. Recto	1		1	0.0000%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Romela M. Bengzon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Artemio V. Panganiban	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana			0	0.0000%
Rowena O. Cortez	8,580		8,580	0.0001%
Rodulfo L. Tablante			0	0.0000%



Archie B. Gupalor	3,000		3,000	0.0000%
Susan Y. Yu		60,000	60,000	0.0006%
Freddie P. Yumang		73,600	73,600	0.0008%
Albertito S. Sarte			0	0.0000%
Efren P. Gabrillo	8,001		8,001	0.0001%
Joel Angelo C. Cruz			0	0.0000%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
Petron Corporation Employees' Retirement Fund (PCERP)	731,156,097		731,156,097	7.80%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**H. Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	15,251,695	0	15,251,695	0.1627%

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

<b>Number of Listed Common Shares *</b>	9,375,104,497
<b>Total Number of Non-Public Shares</b>	7,146,433,099
<b>Total Number of Shares Owned by the Public</b>	2,228,671,398
<b>Public Ownership Percentage</b>	23.77%

\* As indicated in the PSE website



**PCOR**  
**PUBLIC OWNERSHIP REPORT**

**Report Date:** February 28, 2015

**Computation of Public Ownership**

Number of Issued Common Shares	9,375,104,497
Less: Number of Treasury Common Shares, if any	0
Number of Outstanding Common Shares	9,375,104,497

**Less:**

**A. Directors**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Ramon S. Ang	1,000		1,000	0.0000%
Eduardo M. Cojuangco, Jr.	1,000		1,000	0.0000%
Estelito P. Mendoza	1,000		1,000	0.0000%
Jose P. de Jesus	500	100,000	100,500	0.0011%
Aurora T. Calderon	1,000		1,000	0.0000%
Margarito B. Teves	500		500	0.0000%
Eric O. Recto	1		1	0.0000%
Ron W. Haddock	1		1	0.0000%
Mirzan Mahathir	1,000		1,000	0.0000%
Reynaldo G. David	1,000		1,000	0.0000%
Romela M. Bengzon	1,000		1,000	0.0000%
Virgilio S. Jacinto	1,000		1,000	0.0000%
Lubin B. Nepomuceno	5,000		5,000	0.0001%
Artemio V. Panganiban	1,000		1,000	0.0000%
Nelly Favis-Villafuerte	1,000		1,000	0.0000%

**B. Officers**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
Emmanuel E. Erana		100,000	100,000	0.0011%
Rowena O. Cortez	8,580		8,580	0.0001%
Rodulfo L. Tablante			0	0.0000%

Archie B. Gupalor	3,000		3,000	0.0000%
Susan Y. Yu		80,000	80,000	0.0009%
Freddie P. Yumang		73,600	73,600	0.0008%
Albertito S. Sarte		180,000	180,000	0.0019%
Efren P. Gabrillo	8,001	25,000	33,001	0.0004%
Joel Angelo C. Cruz			0	0.0000%

**C. Principal / Substantial Stockholders**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564		4,696,885,564	50.10%
Petron Corporation Employees' Retirement Fund (PCERP)	731,156,097		731,156,097	7.80%
San Miguel Corporation	1,702,870,560		1,702,870,560	18.16%

**D. Affiliates**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

**E. Government**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**F. Banks**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**G. Employees**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
None	0	0	0	0

**H. Lock-Up Shares**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	15,251,695	0	15,251,695	0.1627%

**I. Others**

Name	Direct	Indirect	Total Direct & Indirect Shares	% to Total Outstanding Shares
	0	0	0	0

<b>Number of Listed Common Shares *</b>	9,375,104,497
<b>Total Number of Non-Public Shares</b>	7,146,758,099
<b>Total Number of Shares Owned by the Public</b>	2,228,346,398
<b>Public Ownership Percentage</b>	23.77%

\* As indicated in the PSE website

# **ANNEXES C and D**

**2014 AUDITED FINANCIAL STATEMENTS**

**and**

**INDEX TO FINANCIAL STATEMENTS &  
SUPPLEMENTARY SCHEDULES**

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					3	1	1	7	1
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Company Name

P	E	T	R	O	N	C	O	R	P	O	R	A	T	I	O	N	A	N	D				
S	U	B	S	I	D	I	A	R	I	E	S												

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

S	M	C	H	e	a	d	O	f	f	i	c	e	C	o	m	p	l	e	x				
4	0	S	a	n	M	i	g	u	e	l	A	v	e	n	u	e							
M	a	n	d	a	l	u	y	o	n	g	C	i	t	y									

Form Type

A	A	F	S
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Department requiring the report

--	--	--	--

Secondary License Type, If Applicable

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

## COMPANY INFORMATION

Company's Email Address

contactus@petron.com

Company's Telephone Number/s

886-3888, 884-9200

Mobile Number

--

No. of Stockholders

151,182 (as of December 31, 2014)

Annual Meeting  
Month/Day

May 19, 2015

Fiscal Year  
Month/Day

December 31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

EFREN P. GABRILLO

Email Address

epgabrillo@petron.com

Telephone Number/s

886388 loc 49168

Mobile Number

--

Contact Person's Address

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

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



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

A handwritten signature in black ink, appearing to read "Eduardo M. Cojuangco, Jr.", written over a horizontal line.

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

A handwritten signature in red ink, appearing to read "Ramon S. Ang", written over a horizontal line.

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

A handwritten signature in black ink, appearing to read "Emmanuel E. Eraña", written over a horizontal line.

**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. 0532-14  
Until December 31, 2015  
Attorney's Roll No. 86728  
PTR No. 2278008/1-5-15/Mandaluyong  
Lifetime IIF No. 18924  
MCLE Compliance No. 1V4914823-25-13

# **PETRON CORPORATION AND SUBSIDIARIES**

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



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

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

Branches: Subic - Cebu - Bacolod - Iloilo

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Petron Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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





*Opinion*

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

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

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)



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

Forward

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

*See Notes to the Consolidated Financial Statements.*

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

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

*See Notes to the Consolidated Financial Statements.*

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

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

*See Notes to the Consolidated Financial Statements.*



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

	Equity Attributable to Equity Holders of the Parent Company										
	<i>Note</i>	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Reserve for Retirement Plan	Other Reserves	Total	Non- controlling Interests	Total Equity
					Appro- priated	Unappro- priated					
<b>As of January 1, 2014</b>		<b>P9,475</b>	<b>P9,764</b>	<b>P30,546</b>	<b>P25,171</b>	<b>P17,487</b>	<b>P2,242</b>	<b>(P721)</b>	<b>P93,964</b>	<b>P17,924</b>	<b>P111,888</b>
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	-	(23)	(23)	-	(23)
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,405)	(1,405)	(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
<b>Total comprehensive income (loss) for the year</b>		-	-	-	-	<b>3,320</b>	<b>(3,260)</b>	<b>(1,428)</b>	<b>(1,368)</b>	<b>(381)</b>	<b>(1,749)</b>
Cash dividends and distributions	<i>21</i>	-	-	-	-	(5,163)	-	-	(5,163)	-	(5,163)
Issuance of preferred shares	<i>21</i>	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
<b>As of December 31, 2014</b>		<b>P9,485</b>	<b>P19,653</b>	<b>P30,546</b>	<b>P25,171</b>	<b>P15,644</b>	<b>(P1,018)</b>	<b>(P2,149)</b>	<b>P97,332</b>	<b>P16,360</b>	<b>P113,692</b>

*Forward*

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

Forward

	Equity Attributable to Equity Holders of the Parent Company								Non-controlling Interests	Total Equity
	Note	Capital Stock	Additional Paid-in Capital	Retained Earnings		Reserve for Retirement Plan	Other Reserves	Total		
				Appropriated	Unappropriated					
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)

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

Forward

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

*See Notes to the Consolidated Financial Statements.*

## **PETRON CORPORATION AND SUBSIDIARIES**

### **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.

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## 2. Basis of Preparation

### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were authorized for issue by the BOD on March 17, 2015.

### Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting except for the following which are measured on an alternative basis at each reporting date:

<u>Items</u>	<u>Measurement Bases</u>
Derivative financial instruments at fair value through profit or loss	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale (AFS) financial assets	Fair value
Retirement benefits asset/liability	Fair value of plan assets less the present value of the defined benefit obligation, limited by asset ceiling

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information is rounded off to the nearest million (P000,000), except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. These subsidiaries are:

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

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

Petrogen and Ovincor are both engaged in the business of non-life insurance and re-insurance.

The primary purpose of PFC and PMC is to, among others, sell on wholesale or retail and operate service stations, retail outlets, restaurants, convenience stores and the like.

PSTPL's principal activities are those relating to the procurement of crude oil, ethanol, catalysts, additives, coal and various petroleum finished products; crude vessel chartering and commodity risk management.

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease. NVRC is considered as a subsidiary of Petron despite owning only 40% as Petron has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. Petron controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.

On February 24, 2012, Petron acquired PGL, a company incorporated in the British Virgin Islands. PGL has issued an aggregate of 49,622,176 common shares with a par value of US\$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US\$1.00 to a third party investor (Note 14).



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

Petron Finance (Labuan) Limited is a holding company incorporated under the laws of Labuan, Malaysia.

PAHL is a company incorporated in Hong Kong in March 2008. PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Group in NVRC, Mauritius, PGL and PAHL.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and, (iii) reclassify the Parent Company’s share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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### 3. Significant Accounting Policies

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

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

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

#### *Adopted Effective 2014*

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

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

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2014. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

The Group will adopt the following new or revised standards and amendments to standards on the respective effective dates:

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

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

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

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

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

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

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

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

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

*To be Adopted 2016*

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

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

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

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

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

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

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

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

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

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

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

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

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

#### Financial Assets and Financial Liabilities

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

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

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

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

#### Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts and embedded derivatives are recognized under the caption marked-to-market gains (losses) included as part of "Other income (expenses)" in the consolidated statements of income. Unrealized gains or losses from changes in fair value of commodity price swaps are recognized under the caption hedging gains - net included as part of "Other income (expenses)" in the consolidated statements of income. Realized gains or losses on the settlement of commodity price swaps are recognized under "Others" included as part of "Cost of goods sold" in the consolidated statements of income.

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

The Group's derivative assets and financial assets at FVPL are classified under this category.

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

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

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

The Group's cash and cash equivalents, trade and other receivables, due from related parties, long-term receivables and non-current deposits are included in this category.

*HTM Investments.* HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in profit or loss when the HTM investments are derecognized or impaired.



The Group has no investments accounted for under this category as of December 31, 2014 and 2013.

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

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

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

#### Financial Liabilities

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

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

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

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

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

#### Debt Issue Costs

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

## Derivative Financial Instruments

### Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group has no derivatives that qualify for hedge accounting as at December 31, 2014 and 2013. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

### Embedded Derivatives

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

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

### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Offsetting Financial Instruments

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

### Fair Value Measurements

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

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

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

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

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

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

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

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

### Inventories

Inventories are carried at the lower of cost or net realizable value (NRV). For petroleum products, crude oil, and tires, batteries and accessories (TBA), the net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

For financial reporting purposes, Petron uses the first-in, first-out method in costing petroleum products (except lubes and greases, waxes and solvents), crude oil, and other products. Cost is determined using the moving-average method in costing lubes and greases, waxes and solvents, materials and supplies inventories. For income tax reporting purposes, cost of all inventories is determined using the moving-average method.

For financial reporting purposes, duties and taxes related to the acquisition of inventories are capitalized as part of inventory cost. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

#### Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair values and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

#### ▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other, and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using the book value accounting.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investment in an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

The Group's investment in an associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in the profit or loss of the associate is recognized as "Share in net income (losses) of associates" account in the Group's consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Share in net income (losses) of associates" account in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

#### Interest in a Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's 33.33% joint venture interest in Pandacan Depot Services, Inc. (PDSI), included under "Other noncurrent assets - net" account in the consolidated statements of financial position, is accounted for under the equity method of accounting. The interest in joint venture is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in net income (loss) of the joint venture, less any impairment in value. The consolidated statements of income reflect the Group's share in the results of operations of the joint venture presented as part of "Other income (expenses) - others" account. The Group has no capital commitments or contingent liabilities in relation to its interest in this joint venture.

Results of operations as well as financial position balances of PDSI were less than 1% of the consolidated values and as such are assessed as not material; hence, not separately disclosed.



### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as an expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

For financial reporting purposes, duties and taxes related to the acquisition of property, plant and equipment are capitalized. For income tax reporting purposes, such duties and taxes are treated as deductible expenses in the year these charges are incurred.

For financial reporting purposes, depreciation and amortization, which commences when the assets are available for its intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Buildings and related facilities	2 - 50
Refinery and plant equipment	5 - 33
Service stations and other equipment	1 1/2 - 33
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

#### Investment Property

Investment property consists of land and office units held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

For financial reporting purposes, depreciation of office units is computed on a straight-line basis over the estimated useful lives of the assets of 20 years. For income tax reporting purposes, depreciation is computed using the double-declining balance method.

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Software	5 - 10
Franchise fee	3 - 10

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

As of December 31, 2014 and 2013, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter “P” and two flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator’s death.

The amount of intangible assets is included as part of “Other noncurrent assets” in the consolidated statements of financial position.

Expenses incurred for research and development of internal projects and internally developed patents and copyrights are expensed as incurred and are part of “Selling and administrative expenses” account in the consolidated statements of income.

Impairment of Nonfinancial Assets

The carrying amounts of property, plant and equipment, investment property and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. The fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life

#### Cylinder Deposits

The LPG cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an amount equivalent to 100% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly to profit or loss.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of using the asset during a particular year for purposes other than to produce inventories during the year.

#### Capital Stock

##### *Common Shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### *Preferred Shares*

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Parent Company's option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

### Undated Subordinated Capital Securities

Undated subordinated capital securities are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

### Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

*Interest.* Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

*Dividend.* Revenue is recognized when the Group's right as a shareholder to receive the payment is established.

*Rent.* Revenue from operating leases (net of any incentives given to the lessees) is recognized on a straight-line basis over the lease term.

*Customer Loyalty Programme.* Revenue is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deferred, and is recognized as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

### Cost and Expense Recognition

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b), above.

### Operating Lease

*Group as Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

### Research and Development Costs

Research costs are expensed as incurred. Product development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement and Other Employee Benefit Costs*

Petron has a tax qualified and funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Majority of its subsidiaries have separate unfunded, non-contributory, retirement plans.

The Group's net retirement benefits liability is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit retirement obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of reductions in future contributions to the plan.

Remeasurements of the net defined retirement obligation or asset, excluding net interest, are recognized immediately in other comprehensive income under "Equity reserve for retirement plan". Such remeasurements are also immediately recognized in equity under "Reserve for retirement plan" and are not reclassified to profit or loss in subsequent period. Net defined retirement benefit obligation or asset comprise actuarial gains and losses, the return on plan assets, excluding interest and the effect of the asset ceiling, if any. The Group determines the net interest expense or income on the net defined retirement obligation or asset for the period by applying the discount rate used to measure the defined benefit retirement obligation at the beginning of the annual period to the then-net defined retirement obligation or asset, taking into account any changes in the net defined benefit retirement obligation or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

The Group has a corporate performance incentive program that aims to provide financial incentives for the employees, contingent on the achievement of the Group's annual business goals and objectives. The Group recognizes achievement of its business goals through key performance indicators (KPIs) which are used to evaluate performance of the organization. The Group recognizes the related expense when the KPIs are met, that is when the Group is contractually obliged to pay the benefits.

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

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

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

#### Foreign Currency

##### *Foreign Currency Translations*

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

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

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



### *Foreign Operations*

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

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

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

### Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Assets Held for Sale

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

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

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

#### Related Parties

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

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

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

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

#### Operating Segments

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

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

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

#### Contingencies

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

#### Events After the Reporting Date

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

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#### **4. Significant Accounting Judgments, Estimates and Assumptions**

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

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

### Judgments

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

*Functional Currency.* The Parent Company has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates.

*Operating Lease Commitments - Group as Lessor/Lessee.* The Group has entered into various lease agreements either as lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the properties leased out on operating leases while the significant risks and rewards for properties leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,145, P1,155 and P977 in 2014, 2013 and 2012, respectively.

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

*Evaluating Control over its Investees.* Although the Parent Company owns less than 50% of the voting rights on some of its investees, management has determined that the Parent Company controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

*Classifying Financial Instruments.* The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Determining Fair Values of Financial Instruments.* Where the fair values of financial assets and financial liabilities recognized in the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The Group uses judgments to select from a variety of valuation models and make assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

*Distinction between Property, Plant and Equipment and Investment Property.* The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

*Determining whether an Arrangement Contains a Lease.* The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change of contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; and
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Taxes.* Significant judgment is required in determining current and deferred tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax expenses in the year in which such determination is made.

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2014, 2013 and 2012 the Group opted to continue claiming itemized standard deductions except for Petrogen, Las Lucas Construction and Development Corporation (LLCDC) and Parkville Estates and Development Corporation (PEDC), which are subsidiaries of NVRC, as they opted to apply OSD.

*Contingencies.* The Group currently has several tax assessments, legal and administrative claims. The Group's estimate of the probable costs for the resolution of these assessments and claims has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these tax assessments, legal and administrative claims will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 39).

#### Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

*Allowance for Impairment Losses on Trade and Other Receivables.* Allowance for impairment is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of receivables, designed to identify potential changes to allowance, is performed regularly throughout the year. Specifically, in coordination with the National Sales Division, the Finance Division ascertains customers who are unable to meet their financial obligations. In these cases, the Group's management uses sound judgment based on the best available facts and circumstances included but not limited to, the length of relationship with the customers, the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The amount of impairment loss differs for each year based on available objective evidence for which the Group may consider that it will not be able to collect some of its accounts. Impaired accounts receivable are written off when identified to be worthless after exhausting all collection efforts. An increase in allowance for impairment of trade and other receivable would increase the Group's recorded selling and administrative expenses and decrease current assets.

Impairment losses on trade and other receivables amounted to P2, P3 and P13 in 2014, 2013 and 2012, respectively (Notes 9 and 23). Receivables written-off amounted to P155 in 2014 and P21 in 2013 (Note 9).

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

*Net Realizable Values of Inventories.* In determining the net realizable values of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P53,180 and P51,721 as at the end of 2014 and 2013, respectively (Note 10), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

The Group recognized an inventory write-down amounting to P798 and P702 in 2014 and 2013, respectively (Note 10).

*Allowance for Inventory Obsolescence.* The allowance for inventory obsolescence consists of collective and specific valuation allowance. A collective valuation allowance is established as a certain percentage based on the age and movement of stocks. In case there is write-off or disposal of slow-moving items during the year, a reduction in the allowance for inventory obsolescence is made. Review of allowance is done every quarter, while a revised set-up or booking is posted at the end of the year based on evaluations or recommendations of the proponents. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

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

*Fair Values of Financial Assets and Financial Liabilities.* The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgments. Significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). The amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in the fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Fair values of financial assets and financial liabilities are discussed in Note 35.

*Estimated Useful Lives of Property, Plant and Equipment, Intangible Assets with Finite Useful Lives and Investment Property.* The Group estimates the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property would increase recorded cost of goods sold and selling and administrative expenses and decrease noncurrent assets.

There is no change in estimated useful lives of property, plant and equipment, intangible assets with finite useful lives and investment property based on management's review at the reporting date.

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



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

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

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

*Fair Value of Investment Property.* The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation. Estimated fair values of investment property amounted to P156 as of December 31, 2014 and 2013 (Note 13).

*Impairment of Goodwill.* The Group determines whether goodwill is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

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

No impairment losses were recognized in 2014 and 2013.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the projected sales volume, selling price and improvement in the gross profit margin, and discount rate.

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

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

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

*Realizability of Deferred Tax Assets.* The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P242 and P162 as of December 31, 2014 and 2013, respectively (Note 27).

*Impairment of Other Non-financial Assets.* PFRS requires that an impairment review be performed on investments in associate, property, plant and equipment, intangible assets and investment property when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on financial performance.

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

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

*Present Value of Defined Benefit Retirement Obligation.* The present value of defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement liability.

Other key assumptions for retirement liabilities are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefits liability.

*Asset Retirement Obligation.* The Group has an ARO arising from leased service stations, depots, blending plant, and franchised store and locator in Carmen. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 5.404% to 9.81% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

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

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## 5. Sale of Petron Megaplaza

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

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

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## 6. Cash and Cash Equivalent

This account consists of:

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

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn annual interest (Note 26) at the respective short-term placement rates ranging from 0.01% to 3.50% in 2014 and 0.01% to 5.00% in 2013.

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

This account consists of:

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

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

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

## 8. Available-for-Sale Financial Assets

This account consists of:

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

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 6% to 8.875% in 2014 and 2013 (Note 26).

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

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

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

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

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

## 9. Trade and Other Receivables

This account consists of:

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

Trade receivables are noninterest-bearing and are generally on a 45-day term.

Government receivables pertain to duty drawback, VAT and specific tax claims as well as subsidies receivable from the Government of Malaysia under the Automatic Pricing Mechanism. The amount includes receivables over 30 days but less than one year amounting to P4,252 and P6,296 as of December 31, 2014 and 2013, respectively. The filing and the collection of claims is a continuous process and is closely monitored.

Related parties - non-trade consists of an advance made by the Parent Company to PCERP.

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

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

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

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

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

No allowance for impairment is necessary as regard to these past due but unimpaired trade receivables based on past collection experience. There are no significant changes in credit quality. As such, these amounts are still considered recoverable.

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## 10. Inventories

This account consists of:

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

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

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have increased by P618 and decreased by P1,398 as of December 31, 2014 and 2013, respectively.

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

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

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

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

The provisions and reversals are included as part of "Cost of goods sold" account in the consolidated statements of income (Note 22).

Reversal of write-down corresponds to the inventory sold during the year.

## 11. Investment in an Associate

This account consists of:

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

Investment in an associate pertain to investments in:

### Manila North Harbour Port Inc (MNHPI)

On January 3, 2011, Petron entered into a Share Sale and Purchase Agreement with Harbour Centre Port Terminal, Inc. for the purchase of 35% of the outstanding and issued capital stock of MNHPI.

In December 2014, the Company advanced P175 as deposit for future subscription of MNHPI's shares.

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

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

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



## 12. Property, Plant and Equipment

This account consists of:

	<b>Buildings and Related Facilities</b>	<b>Refinery and Plant Equipment</b>	<b>Service Stations and Other Equipment</b>	<b>Computers, Office and Motor Equipment</b>	<b>Land and Leasehold Improvements</b>	<b>Construction In-progress</b>	<b>Total</b>
<b>Cost</b>							
January 1, 2013	P22,457	P48,743	P14,276	P4,142	P11,754	P57,591	P158,963
Additions	869	60	831	88	243	53,023	55,114
Disposals/reclassifications/ 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)
<b>December 31, 2014</b>	<b>28,330</b>	<b>50,532</b>	<b>16,142</b>	<b>4,328</b>	<b>14,275</b>	<b>104,729</b>	<b>218,336</b>
<b>Accumulated Depreciation and Amortization</b>							
January 1, 2013	13,343	28,095	9,152	2,747	1,515	-	54,852
Additions	1,310	2,389	1,175	313	66	-	5,253
Disposals/reclassifications/ 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)
<b>December 31, 2014</b>	<b>16,766</b>	<b>32,218</b>	<b>10,471</b>	<b>3,135</b>	<b>2,096</b>	<b>-</b>	<b>64,686</b>
<b>Net Book Value</b>							
December 31, 2013	P12,059	P19,362	P5,996	P1,260	P10,702	P92,268	P141,647
<b>December 31, 2014</b>	<b>P11,564</b>	<b>P18,314</b>	<b>P5,671</b>	<b>P1,193</b>	<b>P12,179</b>	<b>P104,729</b>	<b>P153,650</b>

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

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

### Capital Commitments

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

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### 13. Investment Property

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

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

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

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

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

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2014 and 2013, the aggregate fair market values of the properties amounted to P134, determined by independent appraisers in 2013 using market approach, is higher than their carrying values, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

The fair market value of investment property has been categorized as Level 2 in the fair value hierarchy.

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### 14. Acquisition of Subsidiaries and Goodwill

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

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

a. *POGI*

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

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

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

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

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

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

b. *PAHL*

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

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

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

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

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

c. *PGL*

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

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

d. *NVRC*

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

Impairment of Goodwill

Goodwill arising from the acquisition of Petron Malaysia is allocated at the POGI Group cash generating unit (CGU) instead of each individual acquiree company's CGU as it is expected that the POGI Group CGU will benefit from the synergies created from the acquiree companies in combination. The remaining goodwill is allocated to each individual acquiree company.

The recoverable amount of goodwill has been determined based on value in use (VIU). The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 3.0% in 2014 and 2013 and discount rates of 7.8% and 8.0% in 2014 and 2013, respectively. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on internal sources (i.e., historical data). The discount rate is based on the weighted average cost of capital (WACC) using the Capital Asset Pricing Model (CAPM) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium.

The financial projection used in the VIU calculation is highly dependent on the following underlying key drivers of growth in profitability:

- *Sales Volume.* Majority of the sales volume is generated from the domestic market of the CGU. The growth in projected sales volume would mostly be contributed from retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. Commercial sales refer to sales to industrial, wholesale, aviation and LPG accounts.
- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2015, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through overall growth in sales volume along with better sales mix and better cost management.

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

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

For purposes of growth rate sensitivity, a growth rate scenario of 2%, 3% and 4% is applied on the discounted cash flows analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill to exceed its recoverable amount.

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

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

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## 15. Other Assets

This account consists of:

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

The “Noncurrent assets - others” account includes software, marketing assistance to dealers, other prepayments and franchise fees amounting to P796 and P1,100 in 2014 and 2013, respectively, net of amortization of software, marketing assistance to dealers and franchise fees amounting to P295 and P294 in 2014 and 2013, respectively. The amortization of prepaid rent amounted to P243 and P258 in 2014 and 2013, respectively. Amortization of software, marketing assistance to dealers, franchise fees, prepaid rent and other prepayments is included as part of “Selling and administrative - depreciation and amortization” account in the consolidated statements of income (Notes 23 and 25).

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

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## 16. Short-term Loans

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

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## 17. Trade and Other Payables

This account consists of:

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

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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.

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## 18. Long-term Debt

This account consists of:

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

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- 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:

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

#### Repayment Schedule

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

#### 2014

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

#### 2013

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

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## 19. Asset Retirement Obligation

Movements in the ARO are as follows:

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

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## 20. Other Noncurrent Liabilities

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

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## 21. Equity

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

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

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

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

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

b. Capital Stock

Common Share

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

Preferred Share

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

The 2010 Preferred Shares consisted of 100,000,000 peso-denominated, cumulative, non-participating, non-voting shares that are redeemable at the option of the Company. The 2010 Preferred Shares were issued upon listing on the PSE at (P1 par value) P100 per share. The proceeds from issuance in excess of par value less related transaction costs amounted to P9,764 which were recognized as additional paid-in capital. Dividend rate of 9.5281% per annum computed in reference to the issue price was payable every March 5, June 5, September 5 and December 5 of each year, when declared by the BOD.

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

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

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

The Series 2A Preferred Shares may be redeemed by the Company starting on the fifth anniversary from the listing date, while the Series 2B Preferred Shares may be redeemed starting on the seventh anniversary from the listing date.

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

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

All shares rank equally with regard to the Parent Company's residual assets, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

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

2014

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

2013

2010 Preferred Shares - 116

c. Retained Earnings

i. Declaration of Cash Dividends

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

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

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

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

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

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

ii. Appropriation for Capital Projects

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

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

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

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

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

Holder 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)

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## 22. Cost of Goods Sold

This account consists of:

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

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

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## 23. Selling and Administrative Expenses

This account consists of:

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

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

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## 24. Personnel Expenses

This account consists of:

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

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The above amounts are distributed as follows:

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

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## 25. Depreciation and Amortization

This account consists of:

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

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

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

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

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## 27. Income Taxes

Deferred tax assets and liabilities are from the following:

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

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

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

Net deferred taxes of individual companies are not allowed to be offset against net deferred tax liabilities of other companies, or vice versa, for purposes of consolidation.

The components of income tax expense are shown below:

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

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

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

A reconciliation of tax on the pretax income computed at the applicable statutory rates to tax expense reported in the consolidated statements of income is as follows:

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

### Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. Petrogen and LLCDC opted to apply OSD in 2014, 2013 and 2012.

## **28. Related Party Disclosures**

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

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

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

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

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

## **29. Operating Lease Commitments**

### Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 23 and 31). The lease's life ranges from one to twenty six years with renewal options included in the contracts. There are no restrictions placed upon the Group by entering into these leases. The lease agreements include upward escalation adjustments of the annual rental rates.

Future minimum rental payables under the non-cancellable operating lease agreements as of December 31 are as follows:

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

### Group as Lessor

The Group has entered into lease agreements on its service stations and other related structures (Note 23). The non-cancellable leases have remaining terms of between two to nine years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

Future minimum rental receivables under the non-cancellable operating lease agreements as of December 31 follow:

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

### **30. Retirement Plan**

The succeeding tables summarize the components of net retirement benefits cost (income) under a defined benefit retirement plan recognized in profit or loss and the funding status and amounts of retirement plan recognized in the consolidated statements of financial position. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2014. Valuations are obtained on a periodic basis.

The Parent Company's Retirement Plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act (RA) No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT), as appointed by the BOD of the Parent Company. The BOT of the retirement plan, who exercise voting rights over the shares and approve material transactions, are also officers of the Parent Company, while one of the BOT is also a BOD. The retirement plan's accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Present Value of 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
<b>Balance at beginning of year</b>	<b>(P5,867)</b>	(P5,671)	(P3,634)	<b>P9,598</b>	P5,021	P10,206	<b>(P1,448)</b>	(P33)	(P3,249)	<b>P2,283</b>	(P683)	P3,323
<b>Benefit obligation of a newly acquired subsidiary</b>	-	-	(834)	-	-	-	-	-	-	-	-	(834)
<b>Recognized in profit or loss</b>												
Current service cost	<b>(302)</b>	(283)	(203)	-	-	-	-	-	-	<b>(302)</b>	(283)	(203)
Interest expense	<b>(311)</b>	(311)	(266)	-	-	-	-	-	-	<b>(311)</b>	(311)	(266)
Interest income	-	-	-	<b>500</b>	273	508	-	-	-	<b>500</b>	273	508
Interest on the effect of asset ceiling	-	-	-	-	-	-	<b>(77)</b>	(2)	(200)	<b>(77)</b>	(2)	(200)
Settlement gain	<b>99</b>	-	-	-	-	-	-	-	-	<b>99</b>	-	-
	<b>(514)</b>	(594)	(469)	<b>500</b>	273	508	<b>(77)</b>	(2)	(200)	<b>(91)</b>	(323)	(161)
<b>Recognized in other comprehensive income</b>												
Remeasurements:												
Actuarial (gains) losses arising from:												
Experience adjustments	<b>(235)</b>	53	(413)	-	-	-	-	-	-	<b>(235)</b>	53	(413)
Changes in financial assumptions	<b>(331)</b>	(101)	(210)	-	-	-	-	-	-	<b>(331)</b>	(101)	(210)
Changes in demographic assumptions	<b>466</b>	42	(327)	-	-	-	-	-	-	<b>466</b>	42	(327)
Return on plan asset excluding interest	-	-	-	<b>(6,081)</b>	4,651	(5,552)	-	-	-	<b>(6,081)</b>	4,651	(5,552)
Changes in the effect of asset ceiling	-	-	-	-	-	-	<b>1,525</b>	(1,413)	3,416	<b>1,525</b>	(1,413)	3,416
	<b>(100)</b>	(6)	(950)	<b>(6,081)</b>	4,651	(5,552)	<b>1,525</b>	(1,413)	3,416	<b>(4,656)</b>	3,232	(3,086)
<b>Others</b>												
Benefits paid	<b>485</b>	413	207	<b>(414)</b>	(347)	(170)	-	-	-	<b>71</b>	66	37
Transfers from other plans/affiliate	-	(38)	-	-	-	-	-	-	-	-	(38)	-
Transfers from other plans/affiliate	-	38	(29)	-	-	29	-	-	-	-	38	-
Translation adjustment	<b>49</b>	(9)	38	-	-	-	-	-	-	<b>49</b>	(9)	38
	<b>534</b>	404	216	<b>(414)</b>	(347)	(141)	-	-	-	<b>120</b>	57	75
<b>Balance at end of year</b>	<b>(P5,947)</b>	(P5,867)	(P5,671)	<b>P3,603</b>	P9,598	P5,021	<b>P -</b>	(P1,448)	(P33)	<b>(P2,344)</b>	P2,283	(P683)

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

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

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

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

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

Plan assets consist of the following:

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

#### *Investment in Shares of Stock*

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

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

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

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

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



*Investment in Trust Account*

Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

Others include cash and cash equivalents and receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Parent Company's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Parent Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Parent Company is not expected to contribute to its defined benefit retirement plan in 2015.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

The retirement plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Risk.* The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Parent company's long-term strategy to manage the plans efficiently.

*Longevity and Salary Risks.* The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	<b>2014</b>	2013	2012
Discount rate	<b>4.49% to 5.50%</b>	5.00% to 6.26%	5.00% - 6.30%
Future salary increases	<b>6.00% to 8.00%</b>	6.00% to 8.00%	6.00% - 8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation is from 7.51 to 27.78 years and 7.55 to 28.18 years as of December 31, 2014 and 2013, respectively.

The reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit assets/liabilities by the amounts below:

<b>2014</b>	<b>Defined Benefit Liabilities</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
<b>Discount rate</b>	<b>(P461)</b>	<b>P538</b>
<b>Salary increase rate</b>	<b>494</b>	<b>(434)</b>

<b>2013</b>	<b>Defined Benefit Assets</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>
<b>Discount rate</b>	<b>P467</b>	<b>(P541)</b>
<b>Salary increase rate</b>	<b>(490)</b>	<b>433</b>

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

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

### **31. Significant Agreements**

#### *Supply Agreement*

The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company’s crude oil requirements from Saudi Arabian American Oil Company (“Saudi Aramco”), based on the latter’s standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of “Liabilities for crude oil and petroleum product importation” account in the consolidated statements of financial position as of December 31, 2014 and 2013.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with EXTAP, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% from spot purchases.

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

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

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

NPC

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

PSALM

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

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

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

*Toll Service Agreement with Innospec Limited ("Innospec").* PFC entered into an agreement with Innospec, a leading global fuel additives supplier, in December 2006. Under the agreement PFC shall be the exclusive toll blender of Innospec's fuel additives sold in the Asia-Pacific region consisting of the following territories: South Korea, China, Taiwan, Singapore, Cambodia, Japan and Malaysia.

PFC will provide the tolling services which include storage, blending, 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.

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### 32. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts are computed as follows:

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

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

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### 33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

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

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### 34. Financial Risk Management Objectives and Policies

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

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

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

#### Risk Management Structure

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

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

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

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

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

- a. The Audit Committee, which ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.
- b. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD through the Audit Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual.

#### *Foreign Currency Risk*

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

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

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

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

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

	2014		2013	
	US dollar	Phil. peso Equivalent	US dollar	Phil. peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	1,252	56,039	439	19,479
Trade and other receivables	585	26,168	899	39,926
Other assets	53	2,357	61	2,691
	<b>1,890</b>	<b>84,564</b>	1,399	62,096
<b>Liabilities</b>				
Short-term loans	776	34,713	440	19,546
Liabilities for crude oil and 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
	<b>3,544</b>	<b>158,521</b>	3,053	135,541
<b>Net foreign currency - denominated monetary liabilities</b>	<b>(1,654)</b>	<b>(73,957)</b>	(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
<b>December 31, 2014</b>	<b>44.72</b>

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



The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to profit before tax and equity as of December 31, 2014 and 2013:

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

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

### *Interest Rate Risk*

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P497 and P337 in 2014 and 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

### *Interest Rate Risk Table*

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

2014	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso denominated	P36	P36	P20,036	P678	P29	P2,677	P23,492
Interest rate	6.3% - 7.2%	6.3% - 7.2%	6.3% - 7.2%	6.3% - 7.2%	6.3% - 7.2%	6.3% - 7.2%	
<b>Floating Rate</b>							
Malaysian ringgit 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	<b>P87,906</b>	P46,356
Derivative assets	7	<b>334</b>	666
Available-for-sale financial assets	8	<b>881</b>	915
Trade and other receivables - net	9	<b>56,299</b>	67,667
Due from related parties	15	<b>1,747</b>	10,877
Long-term receivables - net	15	<b>43</b>	45
Noncurrent deposits	15	<b>90</b>	92
		<b>P147,300</b>	P126,618

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

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

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 9). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,653 and P4,827 as of December 31, 2014 and 2013, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on TAR as of December 31, 2014 and 2013 are shown below (Note 9):

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
<b>December 31, 2014</b>				
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
	<b>P14,363</b>	<b>P3,501</b>	<b>P800</b>	<b>P18,664</b>
<hr/>				
	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
<b>December 31, 2014</b>				
Reseller	<b>P3,225</b>	<b>P494</b>	<b>P46</b>	<b>P3,765</b>
Lubes	<b>190</b>	<b>84</b>	<b>21</b>	<b>295</b>
Gasul	<b>228</b>	<b>396</b>	<b>126</b>	<b>750</b>
Industrial	<b>2,828</b>	<b>5,848</b>	<b>1,634</b>	<b>10,310</b>
Others	<b>1,271</b>	<b>2,050</b>	<b>223</b>	<b>3,544</b>
	<b>P7,742</b>	<b>P8,872</b>	<b>P2,050</b>	<b>P18,664</b>

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
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.

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

### Commodity Price Risk

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

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

### Other Market Price Risk

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

### Capital Management

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

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

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

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

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

### 35. Financial Assets and Financial Liabilities

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

	<i>Note</i>	2014		2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):					
Cash and cash equivalents	6	<b>P90,602</b>	<b>P90,602</b>	P50,398	P50,398
Trade and other receivables	9	<b>56,299</b>	<b>56,299</b>	67,667	67,667
Due from related parties	15	<b>1,747</b>	<b>1,747</b>	10,877	10,877
Long-term receivables - net	15	<b>43</b>	<b>43</b>	45	45
Noncurrent deposits	15	<b>90</b>	<b>90</b>	92	92
Loans and receivables		<b>148,781</b>	<b>148,781</b>	129,079	129,079
AFS financial assets	8	<b>881</b>	<b>881</b>	915	915
Financial assets at FVPL	7	<b>136</b>	<b>136</b>	117	117
Derivative assets	7	<b>334</b>	<b>334</b>	666	666
FA at FVPL		<b>470</b>	<b>470</b>	783	783
Total financial assets		<b>P150,132</b>	<b>P150,132</b>	P130,777	P130,777

	<i>Note</i>	2014		2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities (FL):					
Short-term loans	16	<b>P133,388</b>	<b>P133,388</b>	P100,071	P100,071
Liabilities for crude oil and petroleum product importation		<b>24,032</b>	<b>24,032</b>	38,707	38,707
Trade and other payables (excluding specific taxes and other taxes payable and retirement benefits liability)	17	<b>36,807</b>	<b>36,807</b>	28,266	28,266
Long-term debt including current portion	18	<b>72,129</b>	<b>72,129</b>	66,187	66,187
Cash bonds	20	<b>870</b>	<b>870</b>	363	363
Cylinder deposits	20	<b>442</b>	<b>442</b>	210	210
Other noncurrent liabilities	20	<b>38</b>	<b>38</b>	3,966	3,966
FL at amortized cost		<b>267,706</b>	<b>267,706</b>	237,770	237,770
Derivative liabilities		<b>98</b>	<b>98</b>	152	152
Total financial liabilities		<b>P267,804</b>	<b>P267,804</b>	P237,922	P237,922

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

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



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

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

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

*Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities.* Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2014 and 2013 are 5.69% and 5.34%, respectively.

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

#### Derivative Financial Instruments

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

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

#### Freestanding Derivatives

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

#### *Currency Forwards*

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

#### *Commodity Swaps*

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2015. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 6.6 million barrels and 2.0 million barrels for 2014 and 2013, respectively. The estimated net receipts for these transactions amounted to P1,420 and P6 for 2014 and 2013, respectively.

#### *Commodity Options*

As of December 31, 2014, the Group has no outstanding 3-way options designated as hedge of forecasted purchases of crude oil.

The call and put options can be exercised at various calculation dates with specified quantities on each calculation date.

#### Embedded Derivatives

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

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

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

#### Fair Value Changes on Derivatives

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

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

#### Fair Value Hierarchy

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2014 and 2013. The different levels have been defined as follows:

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

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P136</b>	<b>P -</b>	<b>P136</b>
Derivative assets	-	<b>334</b>	<b>334</b>
AFS financial assets	<b>372</b>	<b>509</b>	<b>881</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(98)</b>	<b>(98)</b>
<hr/>			
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.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit

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

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

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

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

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

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

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

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

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

#### RMP-2 Project

On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

- e. Exemption from real property tax on production equipment or machinery.
- f. Exemption from contractor's tax.

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

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

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

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

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

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### **37. Segment Information**

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

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

- a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.
- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

- e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, Brunei, Taiwan, Cambodia, Malaysia, Thailand and Singapore.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection moulding grade plastic products.

#### Segment Assets and Liabilities

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

#### Inter-segment Transactions

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

#### Major Customer

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

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

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

*Forward*

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



## Geographical Segments

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

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

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

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

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

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

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

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

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

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

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

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### 39. Other Matters

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

- b. Tax Credit Certificates Related Cases

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 of Tax Credit Certificate ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition was still pending as of December 31, 2014.

- c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into a Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (RTC) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

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

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

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

On August 24, 2012 (August 4 decision), the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an Order dated December 18, 2012, the RTC of Manila denied the motion filed by the Parent Company. The Parent Company filed a notice of appeal on January 23, 2013. In an Order dated February 6, 2013, the RTC of Manila directed that the records of the case be forwarded to the Court of Appeals. On April 15, 2013, Petron received an Order dated April 1, 2013 requiring it to file its appellant's brief. Petron submitted its appellant's brief on July 29, 2013. On December 19, 2013, Petron, through its counsel, received the City of Manila's appellee's brief dated December 12, 2013. Petron filed its appellant's reply brief on February 11, 2014. As of December 31, 2014, the appeal remained pending.

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

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

On January 5, 2015, the Parent Company filed a Manifestation of Understanding of the dispositive portion of the November 25 Decision of the Supreme Court declaring Ordinance 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan and requiring the Parent Company, Shell and Chevron to submit to the RTC of Manila within 45 days from receipt of the November 25 Decision a comprehensive plan and relocation schedule. The manifestation conveyed the understanding of the Parent Company that the submission of the comprehensive plan and relocation schedule as required by the Supreme Court is intended to assure that the Pandacan oil terminals would cease to operate in line with Ordinance 8119. On January 12, 2015, Shell filed a motion for reconsideration thereby preventing the November 25 Decision from becoming final.

d. Oil Spill Incident in Guimaras

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

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

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292. Both cases were pending as of December 31, 2014.

e. Other Proceedings

The Group is also a party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business, financial condition or results of operations.



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

Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
Internet www.kpmg.com.ph  
E-Mail ph-inquiry@kpmg.com

Branches: Subic · Cebu · Bacolod · Iloilo

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

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

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

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

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

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

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

**ADOR C. MEJIA**

Partner

CPA License No. 0029620

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

Tax Identification No. 112-071-634

BIR Accreditation No. 08-001987-10-2013

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

PTR No. 4748117MC

Issued January 5, 2015 at Makati City

March 17, 2015  
Makati City, Metro Manila

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

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**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**

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

**Supplementary Schedule to Parent Financial Statements**

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration	8
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**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)

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



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

NAME OF RELATED PARTY		BEGINNING 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
<b>TOTAL</b>	<b>P</b>	<b>28,201</b>	<b>P</b>	<b>253,487</b>	<b>P</b>	<b>(258,966)</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>22,722</b>	<b>P</b>	<b>22,722</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>22,722</b>

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

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

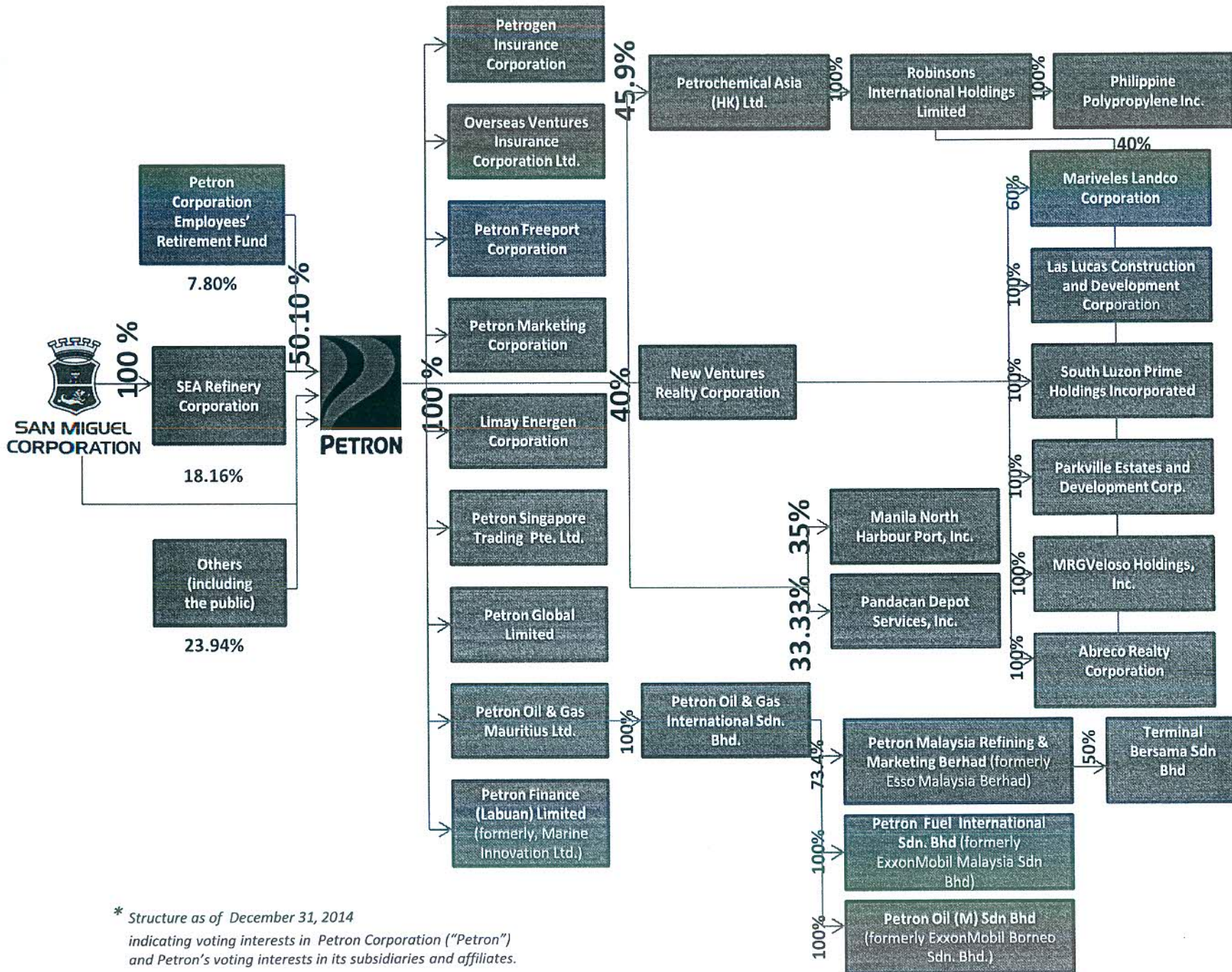
**PETRON CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2014**  
*(Amounts in Millions)*

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

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

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

# PETRON GROUP STRUCTURE



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

## PETRON CORPORATION AND SUBSIDIARIES

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

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS 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			✓
<b>Philippine Accounting Standards</b>				
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	✓		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2014		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 39</b>	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	✓		
<b>PAS 40</b>	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40		✓	
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives		✓	
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes	✓		
<b>IFRIC 14</b>	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	✓		
<b>IFRIC 16</b>	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			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	✓		
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS 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, <i>as adjusted to available for dividend distribution, beginning</i>		<b>P9,039,519</b>
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to Retained Earnings	P2,708,133	
Less: Non-actual/ unrealized income, net of tax:		
Unrealized foreign exchange gain - net(except 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	-	
<b>Net income actually earned during the period</b>	<b>1,551,163</b>	<b>1,551,163</b>
Add (Less):		
Dividend declarations during the period	(1,582,385)	
Distributions paid	(3,580,272)	
Appropriations of retained earnings during the year	-	
Reversal of appropriations	-	
Effects of prior period adjustments	-	
Treasury Shares	-	
	<b>(5,162,657)</b>	<b>(5,162,657)</b>
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND</b>		<b>P 5,428,025</b>



101092015000369



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
 Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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 Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains  
 Company Type Stock Corporation

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C O R P O R A T I O N

(Company's Full Name)

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

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

ATTY. JOEL ANGELO C. CRUZ

Contact Person

886-3888

Company Telephone Number

SEC FORM - ACGR
(ANNUAL CORPORATE GOVERNANCE REPORT)
CONSOLIDATED CHANGES IN THE ACGR FOR 2014

1 2 3 1
Month Day
Fiscal Year

FORM TYPE

0 5 2 0
Month Day
Annual Meeting
(for 2014)

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

Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A

Amended Articles Number/Section

151,611 (as of September 30, 2014)
Total No. of Stockholders

Total Amount of Debt Outstanding: P245,570 Million (as of Dec 31, 2013)

Domestic

Foreign

To be accomplished by SEC Personnel concerned

Fiscal Numer

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



January 8, 2015

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, EDSA  
Mandaluyong City

Attention: **Atty. Justina F. Callangan**  
Acting Director  
Corporate Governance & Finance Department

Re: **SEC Form ACGR (Annual Corporate Governance Report)**  
**Consolidated Changes in the ACGR for 2014**

Gentlemen:

In compliance with SEC Memorandum Circular Nos. 1 and 12, we submit herewith the Company's Annual Corporate Governance Report ("ACGR") (Consolidated Changes in the ACGR for 2014), together with the Secretary's Certificate certifying to the resolutions approved at the meetings held in 2014 regarding the updates and changes in the ACGR.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Joel Angelo C. Cruz".


**JOEL ANGELO C. CRUZ**  
VP – General Counsel &   
Corporate Secretary



**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT  
(CONSOLIDATED CHANGES IN THE ACGR FOR 2014)**

1. Report is Filed for the Year **December 31, 2012**<sup>1</sup>
2. Exact Name of Registrant as Specified in its Charter **Petron Corporation**
3. **SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City**      **1550**  
Address of Principal Office      Postal Code  

4. SEC Identification Number **31171**
5. (SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number **000-168-801**
7. **(632) 886.3888**  
Issuer's Telephone number, including area code
8. **N/A**  
Former name or former address, if changed from the last report

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<sup>1</sup> Updated with information subject of SEC Form 17-Cs and advisement letters filed by the Company with the SEC for the period beginning January 10, 2014 until January 6, 2015 in accordance with SEC Memorandum Circular Number 1, Series of 2014 . Any subsequent update will be reflected in a revised report which will be posted in the Company's website in compliance with afore-mentioned SEC Memorandum Circular.

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**ANNUAL CORPORATE GOVERNANCE REPORT**  
**Petron Corporation (“Petron” or the “Company”)**

**A. BOARD MATTERS**

**1) Board of Directors**

Number of Directors per Articles of Incorporation	<b>15</b>
---	-----------

Actual number of Directors for the year	<b>15</b>
---	-----------

**(a) Composition of the Board**

**Complete the table with information on the Board of Directors:**

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)	Elected when (Annual /Special Meeting)	No. of years served as director*
Ramon S. Ang	ED	San Miguel Corporation	Ramon S. Ang	01/08/09	05/20/14	Annual Stockholders' Meeting ("ASM")	5.98
Eduardo M. Cojuangco, Jr.	NED	San Miguel Corporation	Ramon S. Ang	01/08/09	05/20/14	ASM	5.98
Estelito P. Mendoza**	NED	San Miguel Corporation	Ramon S. Ang	01/08/09	05/20/14	ASM	5.98
Eric O. Recto	ED	San Miguel Corporation	Ramon S. Ang	07/31/08	05/20/14	ASM	6.42
Lubin B. Nepomuceno***	ED	San Miguel Corporation	Ramon S. Ang	2/19/13	05/20/14	ASM	1.86
Mirzan Mahathir	NED	San Miguel Corporation	Ramon S. Ang	08/13/10	05/20/14	ASM	4.39
Ron W. Haddock	NED	San Miguel Corporation	Ramon S. Ang	12/02/08	05/20/14	ASM	6.08
Romela M. Bengzon	NED	San Miguel Corporation	Ramon S. Ang	08/13/10	05/20/14	ASM	4.39

Aurora T. Calderon	NED	San Miguel Corporation	Ramon S. Ang	08/13/10	05/20/14	ASM	4.39
Virgilio S. Jacinto	NED	San Miguel Corporation	Ramon S. Ang	08/13/10	05/20/14	ASM	4.39
Nelly Favis-Villafuerte	NED	San Miguel Corporation	Ramon S. Ang	12/1/11	05/20/14	ASM	3.08
Jose P. de Jesus****	NED	San Miguel Corporation	Ramon S. Ang	05/20/14	05/20/14	ASM	0.62
Reynaldo G. David	ID	N/A	Imelda Carillo (no relation to ID)	05/12/09	05/20/14 (1.62% years as ID as of 12/31/13)	ASM	3.64
Artemio V. Panganiban	ID	N/A	Arman Tupas (no relation to ID)	10/21/10	05/20/14 (1.62% years as ID as of 12/31/13)	ASM	4.20
Margarito B. Teves****	ID	N/A	Ramon S. Ang	05/20/14	05/20/14	ASM	0.62

\* Reckoned from the date of first appointment until December 31, 2014

\*\* Previously served as director of the Company from 1974 to 1986

\*\*\* Mr. Lubin B. Nepomuceno replaced Mr. Ferdinand K. Constantino as a director on February 19, 2013 as disclosed to the Securities and Exchange Commission ("SEC") through an SEC Form 17-C filed on February 20, 2013

\*\*\*\* Elected as director for the first time on May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014

**(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.**

The Company has adopted its Revised Manual of Corporate Governance (the "CG Manual") to guide the Company in enhancing stakeholders' value as it competes in a continually evolving business environment while reflecting sound business practice and applying the principles of good corporate governance in a manner that also takes into account its particular circumstances.

The following policies adopted by the Company aim to further promote good corporate governance of the Company:

1. Code of Conduct and Ethical Business Policy (the "Code of Conduct");
2. Policy on Dealings in Securities; and
3. Whistle-blowing Policy.

The relevant provisions of the CG Manual on the treatment of all shareholders, respect for the rights of minority shareholders and other stakeholders, disclosure duties, and board responsibilities are set out below.

Treatment of All Shareholders; Respect for the Rights of Minority Shareholders and Other Stakeholders  
(updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014 in relation to the amendment of its CG Manual and its SEC Form 17-Cs dated July 7, 2014 and November 7, 2014)

The Company is committed to respect the legal rights of its stockholders.

*Voting Right*

All the stockholders of the Company, including the minority stockholders, have the right to participate in decisions concerning fundamental changes in the Company, such as the following:

1. amendment of the articles of incorporation (the "Articles of Incorporation") and/or by-laws of the Company (the "By-laws");
2. sale, lease, mortgage, pledge or other disposition of all or substantially all of the properties and assets of the Company;
3. merger or consolidation of the Company; and
4. investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the Company is organized.

Common stockholders further have the right to elect, remove and replace directors and vote on corporate acts and matters that require their consent or approval in accordance with the Corporation Code of the Philippines (the "Corporation Code").

At each stockholders' meeting, a stockholder entitled to vote has the right to vote one share, in person or by proxy, for each of share of the capital stock held by such stockholder, subject to the provisions of the By-laws, including the provision on cumulative voting by holders of shares entitled to vote in the case of the election of directors.

The By-laws specifically provide for cumulative voting in the election of directors. The By-Laws and the CG Manual also requires the affirmative vote of at least 2/3 of the total issued and outstanding shares entitled to vote to remove a director with or without cause.

Preferred stockholders have the right to vote on certain corporate acts as provided and specified in the Corporation Code, including the fundamental changes listed above.

The Board of Directors of the Company (the "Board") is required by the CG Manual to be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and, if they cannot attend, they are apprised ahead of time of their right to appoint a proxy.

*Right to Information of Shareholders*

Accurate and timely information is made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

In 2014, the notice of the annual stockholders' meeting held on May 20, 2014, together with the Definitive Information Statement, was released on April 25, 2014. And while not a legal requirement, the notice and the agenda of the meeting were also published in The Philippine Star on April 16, 2014.

In 2013, the notice of the annual stockholders' meeting held on May 21, 2013, together with the Definitive Information Statement, was released on April 26, 2013. The notice and the agenda of the meeting were also published in The Philippine Star and the Manila Times on April 26, 2013.

In 2012, the notice of the annual stockholders' meeting held on May 15, 2012, together with the Definitive Information Statement, was released on April 23, 2012. A publication of the notice of the meeting was also made in The Philippine Star and Business Mirror on May 4, 2012.

The Company furnishes stockholders its most recent financial statement showing in reasonable detail its assets and liabilities and the result of its operations.

At the annual meeting of the stockholders, the Board presents to the stockholders a financial report of the operations of the Company for the preceding year, which includes financial statements duly signed and certified by an independent public accountant, and allows the stockholders to ask questions or raise concerns during the open forum. Duly authorized representatives of the Company's external auditor are also present at the meeting to respond to appropriate questions concerning the financial statements of the Company.

In addition to the foregoing, the Company replies to requests for information and fax, email and telephone queries from the stockholders and keeps them informed through the Company's timely disclosures to the Philippine Stock Exchange ("PSE") and the Securities and Exchange Commission ("SEC"), its regular quarterly briefings and investor briefings and conferences, and the Company's website. The Company website makes available for viewing and download the Company's disclosures and filings with the SEC and the PSE, its media releases, and other salient information of the Company, including matters relating to its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts.

#### *Right to Dividends*

Stockholders have the right to receive dividends subject to the discretion of the Board of Directors.

While the CG Manual provides that 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, it is the policy of the Company to declare as dividends out of its unrestricted retained earnings at least 25% of its unappropriated net income (after taxes) for the prior fiscal year, payable either in cash, distribution of property, or by issuance of new shares of stock. The Board of Directors shall determine, by resolution, the exact amount, the date and the shareholders entitled thereto.

The dividends for the preferred shares issued in 2010 are fixed at the rate of 9.5281% *per annum* calculated in reference to the offer price of P100 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board. Since the listing of these preferred shares in March 2010, cash dividends have been paid out in March, June, September, and December of each year.

On November 3, 2014, the Company issued 7,122,320 Preferred Series 2A shares and 2,877,680 Preferred Series 2B shares. The dividend on the Preferred Stock Series 2 is at a fixed rate of 6.30% per annum for Series 2A and at a fixed rate of 6.8583% per annum for Series 2B, each as calculated based on the offer price of P1,000 per share on a 30/360-day basis and payable quarterly in arrears, whenever approved by the Board.

On November 7, 2014, the Company declared cash dividends of (i) P2.82 per share to the 2010 preferred shareholders for the fourth quarter of 2014 and the first quarter of 2015, (ii) P 15.75 per share to the Preferred Series 2A shareholders for the first quarter of 2015, and (iii) P 17.14575 per share Preferred Series 2B shareholders for the first quarter of 2015.

On August 6, 2014, the Company declared cash dividends of P2.82 per share to preferred shareholders for the third quarter of 2014. On March 24, 2014 and May 6, 2014, the Company declared cash dividends of P0.05 per share to common shareholders and P2.82 per share to preferred shareholders for the second quarter of 2014, respectively.

In 2013, the Company paid out a cash dividend of P0.05 per share to common shareholders and a total of P9.528 per share to preferred shareholders.

In 2012, the Company paid out a cash dividend of P0.10 per share to common shareholders and a total of P9.528 per share to preferred shareholders.

#### *Appraisal Right*

The stockholders have the right to dissent and demand payment of the fair value of their shares in the manner provided for under the Corporation Code under any of the following circumstances: (a) when there is a change or restriction in the rights of any stockholder or class of shares, (b) when the corporation authorizes preferences in any respect superior to those of outstanding shares of any class, (c) when there is an extension or shortening of the term of corporate existence, (d) in case of a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets, (e) in case of a merger or consolidation and (f) 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.

#### *Rights of Minority Shareholders*

In addition to the stockholders rights discussed above, minority stockholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the stockholders' meeting, provided the items are for legitimate business purposes and in accordance with law, jurisprudence and best practice.

The By-laws specifically provide that a special meeting of the stockholders may be called at the written request of one or more stockholders representing at least 20% of the total issued and outstanding capital stock of the Company entitled to vote, and which request states the purpose or purposes of the proposed meeting and delivered to and called by the Corporate Secretary at the Company's principal office.

#### *Shareholders' Meetings and Voting Procedures*

All the meetings of the stockholders are held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board.

In 2014 and 2013, the annual stockholders' meeting was held at the Valle Verde Country Club in Pasig City, Metro Manila.

In 2012, the annual stockholders' meeting was held at the Edsa Shangri-La Manila Hotel, 1 Garden Way, Ortigas Center, Mandaluyong City, Metro Manila.

The Company encourages shareholding voting rights and exerts efforts to remove excessive unnecessary costs and other administrative impediments to the meaningful participation in meetings and/or voting in person or by proxy by all its stockholders, whether individual or institutional investors. To encourage attendance and provide convenient transport during the annual stockholders' meetings in 2013 and 2014, the Company provided shuttle services in strategic points in the vicinity of the Valle Verde Country Club to provide free shuttle service to stockholders to and from the meeting venue.



At each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each of share of the common capital stock held by such stockholder, subject to the provisions of the By-laws, including the provision on cumulative voting in the case of the election of directors.

Under the By-laws, cumulative voting is allowed in the election of directors. A common stockholder may therefore distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his 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.

Preferred stockholders have the right to vote on certain corporate acts specified in the Corporation Code.

If at any stockholders' meeting a vote by ballot shall be taken, the By-laws require that a voting committee be created which will 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, will 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. In any event, the external auditor of the Company will be requested to supervise the voting proceedings.

Disclosure Duties *(updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014 in relation to the amendment of its CG Manual)*

The Company recognizes that the essence of corporate governance is transparency. The more transparent the internal workings of a corporation are, the more difficult it will be for management and dominant stockholders to mismanage the corporation or misappropriate its assets.

It is the policy of the Company to fully and timely disclose all material information concerning the Company's operations or which could adversely affect the interests of its stockholders and other stakeholders in accordance with applicable laws and rules and regulations. Such information includes earnings results, acquisition or disposal of major assets, changes in the Board, significant related party transactions (excluding the purchase of crude oil in the normal course of business), and shareholdings of directors and changes in ownership exceeding 5% of the corporation's outstanding share capital. Other information that shall be disclosed includes the remuneration (including stock options) of all directors and senior management, the corporate strategy and any off-balance sheet transactions.

It is also the policy of the Company that all disclosed information are released through the appropriate stock exchange procedure or mechanism for announcements of listed companies and submissions to the SEC for the interest of the stockholders and other stakeholders of the Company.

Board Responsibilities *(updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014 in relation to the amendment of its CG Manual)*

The Board has the general responsibility of overseeing management of the Company and fostering its long-term success and securing its sustained competitiveness and profitability in a manner consistent with its fiduciary responsibilities, corporate objectives and best interests of the Company, its shareholders and its other stakeholders.

The Board determines and formulates the Company's vision, mission, strategic objectives, policies and procedures, as well as the means to attain the same, guide its activities and effectively monitor Management's performance. Corollary to setting the policies for the accomplishment of the corporate

objectives, the Board provides an independent check on Management.

#### *Specific Responsibilities of the Board*

To ensure a high standard of corporate governance and the application of best practices for the Company, its stockholders and its other stakeholders, the Board shall:

- implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies;
- appoint competent, professional, honest and highly motivated management officers and adopt an effective succession planning program for Management;
- provide sound strategic policies and guidelines to the Company on major capital expenditures and other programs to sustain its long-term viability and strength, and periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance;
- ensure that the Company faithfully complies with all relevant laws and regulations and best business practices;
- identify the Company's stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication or relations with them and the agencies regulating the Company through an effective investor relations program;
- adopt a system of internal checks and balances within the Board and conduct a regular review of the effectiveness thereof, including a continuing review of the Company's internal control system;
- identify key risk areas and performance indicators and monitor these factors with due diligence;
- properly discharge Board functions by meeting regularly or at such times and frequency as may be needed with independent views during Board meetings being encouraged and given due consideration;
- formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the Company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board;
- exercise board authority within the limits prescribed in the Articles of Corporation and the By-laws and in accordance with existing applicable laws, rules and regulations;
- encourage use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities;
- constitute an Audit Committee and such other committees necessary to assist the Board in the performance of its duties and responsibilities; and

- appoint a Compliance Officer.

#### *Internal Control Responsibilities of the Board*

The Board shall have the following oversight responsibilities for ensuring the presence of adequate and effective internal control mechanisms:

- select and appoint a Chief Executive Officer (“CEO”) who possesses the ability, integrity and expertise for the position and define, with the assistance of the Nomination Committee, the duties and responsibilities of the CEO who is ultimately responsible for the Company’s organizational and operational controls;
- evaluate proposed senior Management appointments;
- select and appoint qualified and competent management officers;
- review the Company’s human resource policies, conflict of interest situations, compensation program for employees and management succession plan;
- establish a system of effective organizational and operational controls commensurate with, among others, the nature and complexity of the business of the Company and the business culture, volume, size and complexity of transactions, degree of risks involved, degree of centralization and delegation of authority, extent and effectiveness of information technology and extent of regulatory compliance; and
- determine the necessity of establishing an internal audit system to reasonably assure the Board, Management and the stockholders that the key organizational and operational controls of the Company are faithfully complied with.

#### **(c) How often does the Board review and approve the vision and mission?**

The Board periodically reviews and approves the vision and the mission of the Company as the need arises.

#### **(d) Directorship in Other Companies**

##### **(i) Directorship in the Company’s Group<sup>2</sup>**

**Identify, as and if applicable, the members of the company’s Board of Directors who hold the office of director in other companies within its Group:** *(updated pursuant to the advisement letters of the Company dated June 17, 2014 and June 30, 2014)*

<b>Director’s Name</b>	<b>Corporate Name of the Group Company</b>	<b>Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.</b>
Ramon S. Ang	1. San Miguel Corporation 2. SEA Refinery Corporation 3. Petron Malaysia Refining & Marketing Berhad (Malaysian-registered) 4. Petron Marketing Corporation 5. Petron Freeport Corporation 6. New Ventures Realty Corporation	1. Executive 2. Executive (Vice Chairman) 3. Non-Executive (Chairman) 4. Executive (Chairman) 5. Executive (Chairman) 6. Executive (Chairman) 7. Non-Executive (Chairman)

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the Company.

	<ul style="list-style-type: none"> <li>7. Las Lucas Construction and Development Corporation</li> <li>8. Mariveles Landco Corporation</li> <li>9. Petrochemical Asia (HK) Ltd. (Hong Kong-registered)</li> <li>10. Philippine Polypropylene Inc.</li> <li>11. Robinson International Holdings Ltd. (Cayman Islands-registered)</li> <li>12. Petron Fuel International Sdn. Bhd. (Malaysian-registered)</li> <li>13. Petron Oil (M) Sdn. Bhd. (Malaysian-registered)</li> <li>14. Petron Oil &amp; Gas Mauritius Ltd. (Mauritius-registered)</li> <li>15. Petron Oil &amp; Gas International Sdn Bhd. (Malaysian-registered)</li> </ul>	<ul style="list-style-type: none"> <li>8. Non-Executive (Chairman)</li> <li>9. Executive (Chairman)</li> <li>10. Executive (Chairman)</li> <li>11. Executive (Chairman)</li> <li>12. Executive (Chairman)</li> <li>13. Non-Executive</li> <li>14. Non- Executive</li> <li>15. Non-Executive</li> </ul>
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Eric O. Recto	1. Petron Marketing Corporation	1. Non-Executive
Eduardo M. Cojuangco, Jr.	San Miguel Corporation	Executive (Chairman)
Estelito P. Mendoza	San Miguel Corporation	Non-Executive
Aurora T. Calderon	<ul style="list-style-type: none"> <li>1. San Miguel Corporation</li> <li>2. SEA Refinery Corporation</li> <li>3. Petron Malaysia Refining &amp; Marketing Berhad</li> <li>4. Petron Oil &amp; Gas Mauritius Ltd.</li> <li>5. Petron Oil &amp; Gas International Sdn Bhd</li> <li>6. Petron Marketing Corporation</li> <li>7. Petron Freeport Corporation</li> <li>8. New Ventures Realty Corporation</li> <li>9. Las Lucas Construction Development Corporation</li> <li>10. Petron Singapore Trading Pte Ltd</li> </ul>	<ul style="list-style-type: none"> <li>1. Executive</li> <li>2. Non-Executive</li> <li>3. Executive</li> <li>4. Non-Executive</li> <li>5. Non-Executive</li> <li>6. Non-Executive</li> <li>7. Non-Executive</li> <li>8. Non-Executive</li> <li>9. Non-Executive</li> <li>10. Non-Executive</li> </ul>
Lubin B. Nepomuceno	<ul style="list-style-type: none"> <li>1. Petrogen Insurance Corporation</li> <li>2. Petron Marketing Corporation</li> <li>3. Petron Freeport Corporation</li> <li>4. New Ventures Realty Corporation</li> <li>5. Mariveles Landco Corporation</li> <li>6. Las Lucas Constructed and Development Corporation</li> <li>7. MRGVeloso Holdings, Inc.</li> <li>8. Petron Singapore Trading Pte Ltd</li> </ul>	<ul style="list-style-type: none"> <li>1. Non-Executive</li> <li>2. Non-Executive</li> <li>3. Non-Executive</li> <li>4. Non-Executive</li> <li>5. Executive</li> <li>6. Non-Executive</li> <li>7. Non-Executive</li> <li>8. Non-Executive</li> </ul>

	9. Petron Oil & Gas International Sdn Bhd 10. Petron Fuel International Sdn. Bhd. 11. Petron Oil (M) Sdn. Bhd. 12. Petron Oil & Gas Mauritius Ltd. 13. Petrochemical Asia (HK) Ltd. 14. Robinson International Holdings Ltd. 15. Overseas Ventures Insurance Corporation Ltd. (Bermuda-registered) 16. Philippine Polypropylene Inc. 17. Manila North Harbour Ports, Inc.	9. Non-Executive 10. Non-Executive 11. Non-Executive 12. Non-Executive 13. Non-Executive 14. Non-Executive 15. Non-Executive 16. Non-Executive 17. Non-Executive
Ma. Romela M. Bengzon	Petron Marketing Corporation	Non-Executive
Margarito B. Teves*	San Miguel Corporation	Independent Director

\* Term as director commenced on May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014

**(ii) Directorship in Other Listed Companies**

**1) Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:** *(updated pursuant to the advisement letters filed by the Company with the SEC on April 7, 2014, March 13, 2014 June 30, 2014 and October 28, 2014)*

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ramon S. Ang	1. Top Frontier Investment Holdings, Inc. 2. Liberty Telecoms Holdings, Inc. 3. Ginebra San Miguel Inc. 4. San Miguel Pure Foods Company, Inc. 5. Cyber Bay Corporation 6. San Miguel Brewery Hong Kong Limited	1. Executive 2. Non-Executive (Chairman) 3. Non-Executive 4. Non-Executive (Vice Chairman) 5. Non-Executive 6. Executive (Chairman)
Eric O. Recto	1. Philippine Bank of Communications 2. Philweb Corporation 3. Atok-Big Wedge Corporation 4. ISM Communications Corporation	1. Executive (Chairman) 2. Non-Executive (Vice Chairman) 3. Non-Executive (Vice Chairman) 4. Executive

Eduardo M. Cojuangco, Jr.	1. Ginebra San Miguel Inc. 2. San Miguel Pure Foods Company, Inc.	1. Non-Executive (Chairman) 2. Non-Executive (Chairman)
Estelito P. Mendoza	Philippine National Bank	Non-Executive
Aurora T. Calderon	Top Frontier Investment Holdings, Inc.	Executive
Nelly Favis-Villafuerte	Top Frontier Investment Holdings, Inc.	Non-Executive
Artemio V. Panganiban	1. Manila Electric Company 2. Bank of the Philippine Islands 3. First Philippine Holdings Corp. 4. Metro Pacific Investment Corp. 5. Robinsons Land Corp. 6. GMA Network, Inc. 7. Asian Terminals, Inc. 8. Philippine Long Distance Telephone Co. 9. Jollibee Foods Corporation	1. Independent 2. Independent 3. Independent 4. Independent 5. Independent 6. Independent 7. Independent 8. Independent 9. Non-Executive
Margarito B. Teves*	1. Alphaland Corporation 2. Atok-Big Wedge Corporation	1. Independent 2. Independent

\* Term as director commenced on May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014

**(iii) Relationship within the Company and its Group**

**Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group: (updated pursuant to the advisement letter of the Company dated June 17, 2014)**

Director's Name	Name of the Significant Shareholder	Description of the relationship
Ramon S. Ang	1. San Miguel Corporation 2. SEA Refinery Corporation	1. Director (Vice Chairman), President and Chief Operating Officer; 2. Director (Chairman)
Eduardo M. Cojuangco, Jr.	San Miguel Corporation	Chairman and Chief Executive Officer
Eric O. Recto	1. SEA Refinery Corporation	1. President
Estelito P. Mendoza	San Miguel Corporation	Director
Aurora T. Calderon	1. San Miguel Corporation 2. SEA Refinery Corporation	1. Director and Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer 2. Director

Virgilio S. Jacinto	San Miguel Corporation	Senior Vice President – General Counsel, Corporate Secretary and Compliance Officer
Margarito B. Teves*	San Miguel Corporation	Independent Director

\* Term as director commenced on May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014

**(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:**

While the Company has not particularly set the number of board seats that a director or the CEO may hold in other companies, the CG Manual of the Company has policies and guidelines on multiple board seats as described below.

In addition, the By-laws specifically disqualify for nomination and election as director of the Company any person engaged in the business which competes with or is antagonistic to that of the Company.

	<b>Guidelines</b>	<b>Maximum Number of Directorships in other companies</b>
<b>Executive Director</b>	The policy and the guidelines of the Company on multiple board seats are set out in the CG Manual. A director is required to exercise due discretion in accepting and holding directorships other than in the Company, provided that, in holding such directorships, such director shall ensure that his capacity to diligently and efficiently perform his duties and responsibilities as a director of the Company is not compromised.	The executive directors are required to submit themselves to a low indicative limit on membership in other corporations' boards and their capacity to serve the Company with diligence should not be compromised.
<b>Non-Executive Director</b>	The policy and the guidelines of the Company on multiple board seats are set out in the CG Manual. A director is required to exercise due discretion in accepting and holding directorships other than in the Company, provided that, in holding such directorships, such director shall ensure that his capacity to diligently and efficiently perform his duties and responsibilities as a director of the	Independent or non-executive directors who serve as full-time executives in other corporations are required to submit themselves to a low indicative limit on membership in other corporations' boards and their capacity to serve the Company with diligence should not be compromised.

	Company is not compromised.	
<b>CEO</b>	The policy and the guidelines of the Company on multiple board seats are set out in the CG Manual. The CEO is required to exercise due discretion in accepting and holding directorships other than in the Company, provided that, in holding such directorships, such director shall ensure that his capacity to diligently and efficiently perform his duties and responsibilities as a CEO of the Company is not compromised.	The CEO is specifically required to submit himself to a low indicative limit on membership in other corporations' boards and his capacity to serve the Company with diligence should not be compromised.

**(e) Shareholding in the Company**

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Ramon S. Ang	1,000 common shares	None	0.00%
Eric O. Recto	1 common share	300,000 preferred shares through Philippine Equity Partners 14,000 Preferred Series 2A shares through Philippine Equity Partners, Inc.*	0.003%
Eduardo M. Cojuangco, Jr.	1,000 common shares	None	0.00%
Estelito P. Mendoza	1,000 common shares	None	0.00%
Lubin B. Nepomuceno	5,000 common shares	2,500 Preferred Series 2A shares through BA Securities, Inc.**	0.00%
Ron W. Haddock	1 common share	None	0.00%
Aurora T. Calderon	1,000 common shares	None	0.00%
Mirzan Mahathir	1,000 common shares	None	0.00%
Romela M. Bengzon	1,000 common shares	None	0.00%
Virgilio S. Jacinto	1,000 common shares	None	0.00%
Nelly Favis-Villafuerte	1,000 common shares	None	0.00%
Reynaldo G. David	1,000 common shares	None	0.00%
Artemio V. Panganiban	1,000 common shares	None	0.00%
Jose P. de Jesus <sup>***</sup>	500 common shares	125,000 common shares through I. Ackerman & Co., Inc. 100,000 common shares through UPCC Securities Corporation****	0.001%
Margarito B. Teves <sup>***</sup>	500 common shares	None	0.00%
<b>TOTAL</b>	<b>16,002</b>	<b>300,000</b>	<b>0.003%</b>

\* As reported in an SEC Form 23-B dated November 11, 2014.

\*\* As reported in an SEC Form 23-B dated November 3, 2014.

\*\*\* Term as director commenced on May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014

\*\*\*\* As reported in an SEC Form 23-B dated November 5, 2014.



## 2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes

No

While the Chairman and CEO are the same person, a different person acts as President.

### Identify the Chair and CEO:

Chairman of the Board and CEO	Ramon S. Ang
President	Mr. Lubin B. Nepomuceno*

\*Elected as President on February 19, 2013 as disclosed to the SEC through an SEC Form 17- C filed on February 20, 2013; re-elected on May 20, 2014 as disclosed to the SEC through an SEC Form 17- C filed on May 21, 2014

While the Chairman and CEO are the same person, the Company has a different person as President whose role and responsibilities are specifically delineated from the CEO under the By-laws and the CG Manual.

Furthermore, notwithstanding that the positions of Chairman and CEO are presently occupied by the same person, the functions of Chairman and CEO are also delineated in the By-laws and the CG Manual to foster balance of power, increased accountability and better capacity for independent decision-making by the Board.

The CG Manual also provides that the membership of the Board be a combination of executive and non-executive directors (which shall include independent directors) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors are also required to possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

In addition, the Company has a sufficient number of directors and executives from diverse backgrounds to come up with balanced and informed collegial decisions.

### (b) Roles, Accountabilities and Deliverables

#### Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

While the Chairman and CEO of the Company are the same person, the Company has a different person as President whose role and responsibilities are also specifically delineated from the CEO under the By-laws and the CG Manual.

	<b>Chairman</b>	<b>Chief Executive Officer</b>	<b>Petron's President</b>
Role	Under the By-laws and the CG Manual, the Chairman shall preside at all board and stockholders' meetings and shall act as the Chairman of the Executive Committee and the non-voting Chairman of the Compensation Committee.	Under the By-laws and the CG Manual, the CEO shall perform the duties assigned to him by the Board, including the exercise of oversight responsibility over the investor relations programs of the Company.	Under the By-laws and the CG Manual, the President shall perform the duties assigned to him by the Board and act as a non-voting member of the Compensation Committee.
Accountabilities	<p>Under the CG Manual, the Chairman shall:</p> <p>(i) ensure that the meetings of the Board are held in accordance with the By-laws or as the Chairman may deem necessary;</p> <p>(ii) supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and</p> <p>(iii) maintain qualitative and timely lines of communication and information between the Board and Management.</p>	Under the CG Manual, if so assigned to perform the task, the CEO shall exercise oversight responsibility over the investor relations program of the Company.	Under the CG Manual, the President shall have operational responsibility of the Company and be ultimately accountable for the Company's organizational and procedural controls.
Deliverables	Under the CG Manual and applicable laws and regulations, the Chairman helps prepare the agenda and signs several corporate and financial documents of the Company, including the SEC Form 17-A, the Statement of Management's Responsibility for Financial Statements of the Company, and the minutes of meetings (and beginning 2013, the Annual Corporate Governance Report).	Under applicable laws and regulations, the CEO signs several corporate and financial documents of the Company, including the SEC Form 17-A and the Statement of Management's Responsibility for Financial Statements of the Company (and beginning 2013, the Annual Corporate Governance Report).	Under applicable laws and regulations, the President signs several corporate and financial documents of the Company, including the SEC Form 17-A and the Statement of Management's Responsibility for Financial Statements of the Company (and beginning 2013, the Annual Corporate Governance Report).

**3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?**

The Company has a management succession program in place to ensure an adequate reserve of highly qualified candidates who can respond to immediate and long-term replacements for top key management positions. The program provides a rational system and approach to identify and select candidates for movement to executive positions, supported by deliberate training programs to address the development needs of high potential candidates.

**4) Other Executive, Non-Executive and Independent Directors**

**Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.**

Yes. The CG Manual provides for the general policy that that the membership of the Board be of such a combination of directors to make sure that no director or small group of directors can dominate the decision-making process and that the non-executive directors have such qualifications and stature that would enable them to effectively participate in the deliberations of the Board. The pre-screening and short-listing by the Nominations Committee of candidates to the Board aims to bring together directors with diverse backgrounds to ensure balanced and informed collegial decisions in the Board.

**Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.**

Yes. The Company has non-executive directors who have experience in the oil industry.

Mr. Ron W. Haddock is a director of Alon Energy USA. He also held various positions in the Exxon Group, including, Manager of Baytown Refinery, Corporate Planning Manager, Vice President for Refining, Executive Assistant to the Chairman, and Vice President and Director of Esso Eastern, Inc.

Atty. Estelito P. Mendoza was former Chairman of Alcorn Petroleum and Minerals Corporation.

**Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:** (updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014 in relation to the amendment of its CG Manual)

	<b>Executive</b>	<b>Non-Executive</b>	<b>Independent Director</b>
<b>Role</b>	An executive director forms part of the Board through which the corporate powers of the Company are exercised, all business of the Company is conducted, and all property of the Company is controlled.  An executive director, in addition to the above role, provides qualitative	A non-executive director also forms part of the Board through which the corporate powers of the Company are exercised, all business of the Company is conducted, and all property of the Company is controlled.	An independent director also forms part of the Board through which the corporate powers of the Company are exercised, all business of the Company is conducted, and all property of the Company is controlled.  An independent director, however, further plays the role of

	and timely lines of information and connection between Management and the Board.		<p>giving objective and impartial analysis in the deliberations and decisions of the Board and the committees he belongs to.</p> <p>Under the CG Manual, one of the independent directors of the Company is required to be the Chairman of the Audit Committee and the Nomination Committee. Further, one of them is required to be a member of the Compensation Committee. And in addition to the Chairman of the Audit Committee, another independent director acts as a member of the Audit Committee.</p>
Accountabilities	<p>The CG Manual emphasizes that a director's office is one of trust and confidence. A director should, therefore, act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>The CG Manual also sets out the following duties and responsibilities of a director:</p> <ol style="list-style-type: none"> <li>1. To conduct fair business transactions with</li> </ol>	The requirements of the CG Manual for an executive director also apply to a non-executive director.	<p>The requirements of the CG Manual for executive and non-executive directors also apply to an independent director.</p> <p>In addition, the independent director of the Company is expected to be independent of Management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.</p> <p>And while his absence will not affect the quorum requirement for meetings, an</p>

	<p>the Company, fully disclose to the Board any interest he may have in any matter or transaction to be acted upon by the Board and recuse himself in the Board's decision-making process with respect thereto and, in general, ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or does not prejudice Board decisions.</p> <p>A director who has a continuing material conflict of interest is required to seriously consider resigning from his position. A conflict of interest is considered material if the director's personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company;</p> <p>2. To devote the time and attention necessary to</p>		<p>independent director is enjoined by the CG Manual to always attend Board meetings to promote transparency.</p>
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	<p>properly and effectively discharge his duties and responsibilities;</p> <p>3. To act judiciously;</p> <p>4. To exercise independent judgment;</p> <p>5. To have a working knowledge of the statutory and regulatory requirements affecting the Company, including the contents of the Articles of Incorporation and the By-laws, the rules and regulations or requirements of the SEC, and where applicable, the requirements of other relevant regulatory agencies;</p> <p>6. To observe confidentiality with respect to all matters coming before the Board;</p> <p>7. To ensure the continuing soundness, effectiveness and adequacy of the Company's control environment; and</p> <p>8. To attend</p>		
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	<p>seminar/s on corporate governance conducted by a duly recognized private or government institute in accordance with applicable laws, rules and regulations.</p>		
Deliverables	<p>An executive director signs several corporate documents of the Company, including the minutes of the meetings of the board committee(s) he belongs to and periodic filings of the Company (such as the annual report (SEC Form 17-A and the new requirement of the SEC for the Annual Corporate Governance Report beginning 2013 for reported year 2012).</p>	<p>A non-executive director signs several corporate documents of the Company, including the minutes of the meetings of the board committee(s) he belongs to.</p>	<p>An independent director is required to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his election and/or re-election as an independent director.</p> <p>He likewise signs several corporate documents of the Company, including the minutes of the meetings of the board committee(s) he belongs to and good corporate governance periodic filings of the Company (such as the Corporate Governance Scorecard of the Philippine Stock Exchange that was required until 2012 and the new requirement of the SEC for the Annual Corporate Governance Report beginning 2013 for reported year 2012).</p>

**Provide the company's definition of "independence" and describe the company's compliance to the definition.**

Under the CG Manual, the independence of an independent director is defined as independence from Management and the lack of any business or other relationship (apart from fees and shareholdings) which could, or could reasonably be perceived to materially interfere with the exercise by such director of independent judgment in carrying out his responsibilities as a director.

To ensure that the independence of an independent director is maintained, an independent director of the Company is required to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his election and/or re-election as an independent director.

The CG Manual expressly provides as a ground for disqualification and ineligibility of an independent director (or any person aspiring for nomination and election as independent director) the appointment as an officer, employee or consultant of the Company. The disqualification and ineligibility are effective until after the lapse of two (2) years from the termination of his officership, employment and consultancy agreement with the Company.

Further, the CG Manual provides as a temporary disqualification of an independent director (or any person aspiring for nomination and election as independent director) the beneficial equity ownership in the Company or its subsidiaries and affiliates of more than 2% of the subscribed capital stock. The disqualification can only be lifted until after the shareholding limit is complied with.

**Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.**

The nomination and election of the independent directors of the Company are made in accordance with law, the By-laws, and the CG Manual.



5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
None			

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
<b>a. Selection/Appointment</b>		
(i) Executive Directors	<p>The By-laws require that the election of the directors of the Company be held at annual stockholders' meeting, except that any vacancy occurring in the Board other than by removal by the stockholders or by expiration of term may be filled by the vote of at least a majority of the remaining directors and such director so elected to fill a vacancy shall be elected only or the unexpired term of his predecessor in office.</p> <p>Pursuant to the provisions of the CG Manual, the Nomination Committee pre-screens and short-lists candidates who have the qualifications and none of the disqualifications set out in applicable laws and regulations, the By-laws and the CG Manual.</p> <p>In case of the expiration of the term of the directors, the final list of the candidates is set out in the Definitive Information</p>	<p>A person to be nominated and elected as a director of the Company should have the following minimum qualifications:</p> <ol style="list-style-type: none"> <li>holder of at least one (1) share of stock of the Company;</li> <li>be a college graduate or have sufficient experience in managing a business;</li> <li>be at least 21 years old; and</li> <li>possesses integrity</li> </ol> <p>and should have none of the following disqualifications:</p> <ol style="list-style-type: none"> <li>engaged in any business that competes with or is antagonistic to that of the Company;</li> </ol> <p>A person is deemed to engage in competing or antagonistic business if:</p>

	<p>Statement and the disclosures of the Company for the information and consideration of the stockholders. During the annual stockholders' meeting, the 15 nominees who get the highest votes shall be deemed duly elected as directors. Under the 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 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.</p>	<p>(a) The person is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares, or similar ownership interest, of any corporation, or other form of business entity (other than one in which the Company owns at least 30% of the total issued and outstanding capital stock or equivalent ownership interest) engaged in a business that the Board determines to be competitive or antagonistic to that of the Company;</p> <p>(b) The person is an officer, manager or controlling person of, or the owner (either of record or beneficially) of 10% or more of any outstanding class of shares, or similar ownership interest, of any other corporation or business engaged in any line of business of the Company, if the Board determines that the laws against combinations in restraint of trade shall be violated by such person's membership in the Board; or</p> <p>(c) The person is the nominee of any person described in (a) and (b) above as determined by the Board in the exercise of its judgment, in good faith;</p>
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		<p>2. has been convicted by final judgment of a competent judicial or administrative body of an offense involving moral turpitude and/or fraud or has been enjoined or restrained by the SEC or other competent judicial or administrative body for violation of the securities, commodities, and other related laws;</p> <p>3. has been determined by the SEC or a court or administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or the <i>Bangko Sentral ng Pilipinas</i> ("BSP"), or any rule, regulation or order of the SEC or the BSP;</p> <p>4. has been declared insolvent by a competent court;</p> <p>5. has been convicted by final judgment of a competent court or administrative body of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his proposed election or appointment; or</p>
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		<p>6. has been found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs.</p> <p>The Nomination Committee will also consider the following guidelines in the determination of the number of allowed memberships in other boards of the members of the Board of the Company:</p> <ol style="list-style-type: none"> <li>1. the nature of the business of the other companies in which a member of the Board is also a director;</li> <li>2. age of the director;</li> <li>3. number of directorships/active memberships and officerships in other corporations or organizations; and</li> <li>4. possible conflict of interest.</li> </ol>
(ii) Non-Executive Directors	The process adopted for the election of an executive director as above-explained is applicable to the election of a non-executive director.	The criteria required for the election of an executive director as above-explained are applicable to the election of a non-executive director.
(iii) Independent Directors	The process adopted for the election of executive and non-executive directors as above-explained is applicable to the election of an independent director.	The criteria required for the election of executive and non-executive directors as above-explained are applicable to the election of an independent director. In addition, his independence from Management and lack of any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director

		will also be considered..
<b>b. Re-appointment</b>		
(i) Executive Directors	<p>The By-laws require that the election of the directors, including any re-appointment be held at annual stockholders' meeting, except that any re-appointment made to fill in a vacancy occurring in the Board other than by removal by the stockholders or by expiration of term may be filled by the vote of at least a majority of the remaining directors and such director so elected to fill the vacancy shall be elected only for the unexpired term of his predecessor in office.</p> <p>Pursuant to the provisions of the CG Manual, the Nomination Committee pre-screens and short-lists candidates who have the qualifications and none of the disqualifications set out in applicable laws and regulations, the By-laws and the CG Manual.</p> <p>If the re-appointment will be made at an annual stockholders' meeting, the final list of the candidates is set out in the Definitive Information Statement and the disclosures of the Company for the information and consideration of the stockholders. During the annual stockholders' meeting, the 15 nominees who get the highest votes shall be deemed duly elected as directors. Under the 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</p>	The criteria required for the election of an executive director as above-explained are applicable to any re-appointment.

	<p>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.</p>	
(ii) Non-Executive Directors	<p>The process adopted for the re-appointment of an executive director applies to the re-appointment of a non-executive director.</p>	<p>The criteria required for the election of an executive director as above-explained are applicable to any re-appointment of a non-executive director.</p>
(iii) Independent Directors	<p>The process adopted for the re-appointment of executive and non-executive directors applies to the re-appointment of an independent director.</p>	<p>The criteria required for the re-appointment of executive and non-executive directors as above-explained are applicable to the re-appointment of an independent director. In addition, the independence of the individual from Management and lack of any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director will also be considered.</p> <p>An independent director is required to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his election and/or re-election as an independent director.</p>

c. Permanent Disqualification		
(i) Executive Directors	<p>The qualifications and disqualifications of the directors of the Company (including the grounds set out in the law) form part of the CG Manual. The Compliance Officer, in the performance of his duty to monitor compliance with the provisions and requirements of the CG Manual, should raise the issue of any permanent disqualification that any director may have so that the necessary procedure for the removal of the concerned director and the nomination and election of the replacement director can be commenced.</p>	<p>In addition to the disqualifications set out in applicable laws and regulations, the CG Manual provide the following criteria for disqualifying a director or a person aspiring to be a director:</p> <ol style="list-style-type: none"> <li>1. conviction by final judgment or order of a competent judicial or administrative body of any criminal offense that               <ol style="list-style-type: none"> <li>(a) involves the purchase or sale of securities, as defined in the Securities Regulation Code;</li> <li>(b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;</li> <li>or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;</li> </ol> </li> <li>2. If by reason of misconduct and after hearing, such person is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from:               <ol style="list-style-type: none"> <li>(a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, future commission merchant, commodity</li> </ol> </li> </ol>

		<p>trading advisor, or floor broker; (b) acting as director or officer of a bank, quasibank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.</p> <p>The disqualification shall also apply if such person is currently the subject of an order of the SEC or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered or any rule or regulation issued by the SEC or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;</p> <p>3. conviction by final judgment or order of a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft,</p>
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		<p>estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>4. declared by final judgment or order of the SEC, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the SEC or BSP, or any of its rule, regulation or order;</p> <p>5. If after his election as independent director of the Company, such person becomes an officer, employee or consultant of the Company;</p> <p>6. judicially declared as insolvent;</p> <p>7. found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (1) to (5) above; and</p> <p>8. conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code</p>
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		committed within five (5) years prior to the date of his election or appointment.
(ii) Non-Executive Directors	The process for the permanent disqualification of an executive director as above-explained applies to the permanent disqualification of a non-executive director.	The criteria for the permanent disqualification of an executive director as above-explained apply to the permanent disqualification of a non-executive director.

(iii) Independent Directors	<p>The process for the permanent disqualification of executive and non-executive directors as above-explained applies to the permanent disqualification of an independent director.</p> <p>In addition, a notice of the disqualification must be filed with the SEC within five (5) days of such disqualification pursuant to requirements of the Amended Implementing Rules and Regulations of the Securities Regulation Code (the "SRC Rules").</p>	<p>The criteria for the permanent disqualification of executive and non-executive directors as above-explained apply to the permanent disqualification of an independent director.</p>
<b>d. Temporary Disqualification</b>		
(i) Executive Directors	<p>The qualifications and disqualifications of the directors of the Company (including the grounds set out in the law) form part of the CG Manual. The Compliance Officer, in the performance of his duty to monitor compliance with the provisions and requirements of the CG Manual, should raise the issue of any temporary disqualification of any director may have so that the necessary procedure for the removal and/or suspension of the concerned director nomination and the election of the replacement director can be commenced.</p>	<p>The CG Manual provides that any of the following shall be a ground for temporary disqualification of a director, or, if applicable, of any person aspiring for nomination and election to the Board:</p> <ol style="list-style-type: none"> <li>1. refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing and regulations. The disqualification shall be in effect as long as the refusal persists;</li> <li>2. absence in more than 50% of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the</li> </ol>

		<p>succeeding election;</p> <p>3. dismissal or termination for cause as director of any corporation. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination; and</p> <p>4. if any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p>
(ii) Non-Executive Directors	The process for the temporary disqualification of an executive director as above-explained applies to the temporary disqualification of a non-executive director.	The criteria for the permanent disqualification of an executive director as above-explained apply to the permanent disqualification of a non-executive director.
(iii) Independent Directors	<p>The process for the temporary disqualification of executive and non-executive directors as above-explained applies to the temporary disqualification of an independent director.</p> <p>In addition, a notice of the disqualification must be filed with the SEC within five (5) days of such disqualification pursuant to requirements of the SRC Rules.</p>	<p>The criteria for the temporary disqualification of executive and non-executive directors as above-explained apply to the temporary disqualification of an independent director.</p> <p>In addition, the beneficial ownership by an independent director of the Company or its subsidiaries and affiliates exceeding 2% of the subscribed capital stock is a temporarily disqualification of such independent director. The disqualification will be lifted if the limit is later complied with.</p>
<b>e. Removal</b>		
(i) Executive Directors	The grounds for the removal of a director of the Company are the lack of any of the qualifications and/or the possession of any of the disqualifications of the directors of the Company	Under the provisions of the Corporate Code, a director can be removed without or without cause, except that removal without cause may not be used to deprive minority stockholders of the

	(including the grounds set out in the law) as such qualifications and disqualifications form part of the CG Manual. The Compliance Officer, in the performance of his duty to monitor compliance with the provisions and requirements of the CG Manual, should raise the issue of any ground for the removal of any director so that the necessary procedure for removal of such director can be commenced.	right of representation.  A cause for removal can either be any ground for the permanent or temporary disqualification of a director as set out in the relevant items above.
(ii) Non-Executive Directors	The process for the removal of an executive director of the Company as above-discussed also applies to the removal of a non-executive director.	The criteria for the removal of an executive director of the Company as above-discussed also apply to the removal of a non-executive director.
(iii) Independent Director	The process for the removal of executive and non-executive directors of the Company as above-discussed also applies to the removal of an independent director.  In addition, a notice of the disqualification must be filed with the SEC within five (5) days of such disqualification pursuant to requirements of the SRC Rules.	The criteria for the removal of executive and non-executive directors of the Company as above-discussed also apply to the removal of an independent director.  In addition, an independent director can be removed if he subsequently fails to have any of the qualifications and/or possesses any disqualifications specifically applicable to an independent director under the law (e.g., beneficial ownership of more than 2% of the equity of the Company and/or its subsidiaries).
<b>f. Re-instatement</b>		
(i) Executive Directors	The reinstatement of any executive director who was previously temporarily disqualified to act as such will require the observance of the procedure described above for the selection and appointment of executive directors.  The re-instatement of a director may either be made	A director proposed to be reinstated must possess all the qualifications and none of the disqualifications for the position of director.  And pursuant further to the CG Manual, the re-instatement of a previously disqualified director should be made only after the period

	<p>during the annual stockholders' meeting or at any time by the vote of at least a majority of the remaining directors in case of any vacancy occurring in the Board other than by removal by the stockholders or by expiration of term, and such director so elected to fill a vacancy shall be elected only or the unexpired term of his predecessor in office.</p> <p>Pursuant to the provisions of the CG Manual, the Nomination Committee pre-screens and short-lists candidates who have the qualifications and none of the disqualifications set out in applicable laws and regulations, the By-laws and the CG Manual.</p> <p>In case the re-instatement will be made during the annual stockholders' meeting, the final list of the candidates is set out in the Definitive Information Statement and the disclosures of the Company for the information and consideration of the stockholders. During the annual stockholders' meeting, the 15 nominees who get the highest votes shall be deemed duly elected as directors. Under the 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 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</p>	<p>of disqualification described below:</p> <ol style="list-style-type: none"> <li>1. in case of any refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing rules and regulations, until the compliance with such disclosure requirements;</li> <li>2. in case of absence in more than 50% of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident, until after the succeeding election; and</li> <li>3. in case of dismissal or termination for cause as director of any corporation, until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.</li> </ol>
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	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.	
(ii) Non-Executive Directors	The process for the reinstatement of an executive director who was previously temporarily disqualified to act as such as above-discussed will apply to the reinstatement of a non-executive director.	The criteria for the reinstatement of an executive director who was previously temporarily disqualified to act as such as above-discussed will apply to the reinstatement of a non-executive director.
(iii) Independent Directors	The process for the reinstatement of executive and non-executive directors who were previously temporarily disqualified to act as such as above-discussed will apply to the reinstatement of an independent director.	The criteria for the reinstatement of executive and non-executive directors who were previously temporarily disqualified to act as such as above-discussed will apply to the reinstatement of an independent director. In addition, any disqualification of an independent director due to his beneficial ownership in the Company or its subsidiaries and affiliates of more than 2% of the subscribed capital stock will only be lifted if the equity limit is later complied with.
<b>g. Suspension</b>		
(i) Executive Directors	The process adopted for the removal of an executive director due to a temporary disqualification as explained above will be applicable to the process of suspending an executive director should such suspension be resorted to instead of removal.	The criteria for the removal of an executive director due to a temporary disqualification as explained above will be applicable to the criteria for suspending an executive director should such suspension be resorted to instead of removal.
(ii) Non-Executive Directors	The process adopted for the removal of a non-executive director due to a temporary	The criteria for the removal of a non- executive director due to a temporary

	disqualification as explained above will be applicable to the process of suspending a non-executive director should such suspension be resorted to instead of removal.	disqualification as explained above will be applicable to the criteria for suspending a non-executive director should such suspension be resorted to instead of removal.
(iii) Independent Directors	The process adopted for the removal of an independent director due to a temporary disqualification as explained above will be applicable to the process of suspending an independent director should such suspension be resorted to instead of removal.	The criteria for the removal of an independent director due to a temporary disqualification as explained above will be applicable to the criteria for suspending an independent director should such suspension be resorted to instead of removal.

### Voting Result of the last Annual General Meeting

Based on the Stockholders' Meeting Vote Canvassing Results issued by the stock transfer agent of the Company, SMC Stock Transfer Service Corporation, in connection with the 2014 annual stockholders' meeting held on May 20, 2014, the result of the voting for the election of the directors was as follows:

Name of Director	Votes Received
Ramon S. Ang	7,178,595,079
Eric O. Recto	7,178,595,079
Eduardo M. Cojuangco, Jr.	7,179,235,677
Estelito P. Mendoza	7,178,595,077
Jose P. De Jesus	7,179,235,677
Lubin B. Nepomuceno	7,179,235,678
Aurora T. Calderon	7,113,111,785
Ron W. Haddock	7,179,235,676
Mirzan Mahathir	7,178,595,076
Romela M. Bengzon	7,179,235,676
Virgilio S. Jacinto	7,179,235,676
Nelly Favis-Villafuerte	7,179,235,676
Reynaldo G. David	7,299,856,049
Artemio V. Panganiban	7,178,595,076
Margarito B. Teves	7,300,496,649



Based on the Stockholders' Meeting Vote Canvassing Results issued by SMC Stock Transfer Service Corporation in connection with the 2013 annual stockholders' meeting held on May 21, 2013, the result of the voting for the election of the directors was as follows:

Name of Director	Votes Received
Ramon S. Ang	7,942,188,365
Eric O. Recto	7,951,981,865
Eduardo M. Cojuangco, Jr.	7,952,654,965
Estelito P. Mendoza	7,951,981,865
Bernardino R. Abes	7,952,654,965
Roberto V. Ongpin	7,951,981,865
Lubin B. Nepomuceno	7,952,654,965
Aurora T. Calderon	7,939,094,915
Ron W. Haddock	7,952,654,965
Mirzan Mahathir	7,951,981,865
Romela M. Bengzon	7,952,654,965
Virgilio S. Jacinto	7,943,679,115
Nelly Favis-Villafuerte	7,952,654,965
Reynaldo G. David	7,951,981,865
Artemio V. Panganiban	7,951,981,865

Based on the Stockholders' Meeting Vote Canvassing Results issued by SMC Stock Transfer Services Corporation for the 2012 annual stockholders' meeting held on May 15, 2012, the result of the voting for the election of the directors was as follows:

Name of Director	Votes Received
Ramon S. Ang	8,077,929,221
Eric O. Recto	8,078,309,121
Eduardo M. Cojuangco, Jr.	8,077,929,221
Estelito P. Mendoza	8,078,309,121
Bernardino R. Abes	8,078,309,121
Roberto V. Ongpin	8,078,309,121
Aurora T. Calderon	8,027,055,421
Ferdinand K. Constantino	8,027,055,421
Ron W. Haddock	8,078,309,121
Mirzan Mahathir	8,078,309,121
Romela M. Bengzon	8,078,309,121
Virgilio S. Jacinto	8,078,309,121
Nelly Favis-Villafuerte	8,078,309,121
Reynaldo G. David	8,078,309,121
Artemio V. Panganiban	8,078,309,121

## 6) Orientation and Education Program

### i. Disclose details of the company's orientation program for new directors, if any.

The Company conducts an orientation program for new directors immediately after their election. The orientation is a briefing on the Company's business, including tours of the Petron Bataan Refinery and major installations of the Company. The Compliance Officer likewise ensures that the new directors are oriented on the requirements of applicable law on corporate governance if the directors have not yet previously attended a corporate governance seminar.

### ii. State any in-house training and external courses attended by Directors and Senior Management<sup>3</sup> for the past three (3) years: (updated pursuant to the SEC Form 17-Cs dated August 7, 2014 September 29, 2014 and November 10, 2014 filed by the Company)

#### (1) Directors

- **Eduardo M. Cojuangco, Jr.**

- September 2014 – Corporate Governance Seminar by SGV & Co. held in Mandaluyong City

- **Ramon S. Ang**

- November 2014 - Corporate Governance Seminar by Risks, Opportunities, Assessment and Management, Inc. held in Mandaluyong City
- October 2013 - Conflicts of Interests and Board Evaluation Seminar conducted by The Hong Kong Institute of Directors in Mandaluyong City
- September 2012 - Directors Training: Role of Company Director and Regulatory Framework and Board Practices Overview of Risk Management by The Hong Kong Institute of Directors held in Mandaluyong City
- July 2012 - Mandatory Accreditation Programme for Directors of Public Listed Companies by Bursatra Sdn. Bhd. held in Kuala Lumpur, Malaysia

- **Eric O. Recto**

- May 2014 - Corporate Governance Seminar by Risks, Opportunities, Assessment and Management, Inc. held in Makati City
- July 2012 - Mandatory Accreditation Programme for Directors of Public Listed Companies by Bursatra Sdn. Bhd. held in Kuala Lumpur, Malaysia
- March 2012 - Euromoney Conference: "Philippines Investment Forum: The New Beginning" by Euromoney

- **Lubin B. Nepomuceno**

- August 2014 - "Creating Advantage Through Governance" by SGV & Co. held in Mandaluyong City
- October 2013 - Anti-Trust/Competition Legislation Briefing by The trade Advisory Group held in Mandaluyong City
- October 2013 - Anti-Trust/Competition Legislation Briefing by The trade Advisory Group held in

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<sup>3</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Mandaluyong City

- October 2012 - DCS Design & Engineering Study by the Petron Bataan Refinery held in Bataan
- September 2012 - Future of Bio-Diesel by the Petron Bataan Refinery held in Bataan
- July 2012 - Mandatory Accreditation Programme for Directors of Public Listed Companies by the Bursatra Sdn. Bhd. held in Kuala Lumpur, Malaysia
- June 2012 - Coking Conference by the Petron Bataan Refinery held in Bataan
- June 2012 - FCC Catalyst Production Study by the Petron Bataan Refinery held in Bataan
- June 2012 - Technical Feasibility of Aromatic Plants Study by the Petron Bataan Refinery held in Bataan

• **Aurora T. Calderon**

- September 2014 - Corporate Governance Seminar by SGV & Co. held in Mandaluyong City
- October 2013 - FINEX Annual Convention “Inspiring Financial Excellence and Integrity Towards Global Competitiveness” by the Financial Executives of the Philippines held in Makati City
- October 2012 - FINEX Annual Conference by the Financial Executives of the Philippines held in Makati City
- July 2012 - Mandatory Accreditation Programme for Directors of Public Listed Companies by Bursatra Sdn. Bhd. held in Kuala Lumpur, Malaysia

• **Estelito P. Mendoza**

- September 2014 - Corporate Governance Seminar by SGV & Co. held in Mandaluyong City
- June 2009 - Corporate Governance Orientation Program by the Institute of Corporate Directors
- June 2009 - Seminar on Anti-Money Laundering by the *Bangko Sentral ng Pilipinas*

• **Artemio V. Panganiban**

- February 2014 - Corporate Governance & Risk Management Summit by the Institute of Corporate Directors held in Makati City
- November 2012 - Corporate Governance Forum on “Navigating the New World of Business by the First Pacific Leadership Academy held in Pasig City
- December 2011 - Board Governance Responsibilities: Risks, Culture Leadership conducted by the CG Education Program of the Philippine Long Distance Telephone Company (“PLDT CG Education Program”), together with Global Compliance Services, Inc. held in Hong Kong
- December 2010 - Board of Director’s Fiduciary Duties and Role in Relation to ERM: Best Practices in Dealing with the Agency Dilemma and Setting a Company’s Risk Appetite by the PLDT CG Education Program, together with the Asia Risk Management Institute held at in Pasig City, Metro Manila
- December 2009 - Governing in a Global Crisis: Lessons from the Great Recession by the PLDT CG Education Program, together with the Ethics and Compliance Officers Association, held in Hong Kong

• **Margarito B. Teves**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- January 2012 - Corporate Governance Course by the Bankers Institute of the Philippines held in Makati City

- **Mirzan Mahathir**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- **Nelly Favis-Villafuerte**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- **Reynaldo G. David**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- **Romela M. Bengzon**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- **Virgilio S. Jacinto**
  - September 2014 - Corporate Governance Seminar by SGV & Co. held in Mandaluyong City
- **Jose P. de Jesus**
  - September 2014 - Corporate Governance Seminar by SGV & Co. held in Mandaluyong City
- **Ron W. Haddock**
  - November 2014 - Corporate Governance Seminar by SGV & Co. held in Mandaluyong City

## **(2) Senior Management**

- **Emmanuel E. Eraña – Senior Vice President and Chief Finance Officer**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- **Susan Y. Yu- Vice President, Procurement**
  - August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
  - February 2012 - Fundamentals of Petroleum Refining - A Non-Technical introduction course by the Oxford Princeton Programme (Singapore)
  - February 2012 - Fundamentals of Refinery Economics and Blending Course by the Oxford Princeton Programme (Singapore)
  - September 2011 - Coal Trading and Risk Management Training Course by Coaltrans Conferences Ltd.
  - June 2010 - Advanced Energy Derivatives Pricing, Hedging and Risk Management Course by the Oxford Princeton Programme (New York, USA)
  - June 2010 - Energy Derivatives Market, Instruments and Hedging Course by the Oxford Princeton Programme (New York, USA)

- **Freddie P. Yumang - Vice President, Refinery**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- September 2012 - Flowsolve Decoking Conference held in the United States
- September 2012 - Innospec’s 2012 Well to Wheels Conference held in Dublin, Ireland
- September 2011 - Innospec on the Fuels Additive Program for RMP-2 held in United Kingdom
- September 2010 - SINOPEC 2’nd International Technical Conference on Petrochemical Catalysts held in China
- April 2010 - Technical Exchanges with PTT Thai Oil Thailand and Petronas Melaka Malaysia Refineries held in Thailand and Malaysia
- May 2010 - 70<sup>th</sup> ASCOPE National Committee Meeting held in Brunei Darussalam

- **Rowena O. Cortez - Vice President, Supply**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- March 2013 - Strategic FSRU and FLNG Operations and Management by Uni Strategic Pte Ltd held in Malaysia
- November 2011 - Global Petrochemical Industry Training by Nexant Chemsystems held in Shanghai, China
- June 2011 - Aviation Fuel Handling Seminar by Air Total held in Paris, France
- June 2010 - Executive Decision-Making, an online course by e-Cornell

- **Archie B. Gupalor- Vice President, National Sales**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City
- August-November 2010 - Management Development Program by the San Miguel Purefoods University and Harvard Business Publishing House held in Pasig City

- **Efren P. Gabrillo - Vice President, Controllers and Controller**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City

- **Albertito S. Sarte - Vice President, Treasurers and Treasurer**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City

- **Joel Angelo C. Cruz - Vice President, General Counsel and Corporate Secretary**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City

- **Rodulfo L. Tablante - Vice President, Operations**

- August 2014 - “Creating Advantage Through Governance” by SGV & Co. held in Mandaluyong City

iii. Continuing education programs for directors: programs and seminars and roundtables attended during the year (updated pursuant to the SEC Form 17-Cs dated August 7, 2014, September 29, 2014 and November 10, 2014 filed by the Company)

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Ramon S. Ang	1. November 6, 2014 2. October 21, 2013 3. July 11 and 12, 2012 4. September 11, 2012	1. Corporate Governance Seminar (Mandaluyong City) 2. Conflicts of Interests and Board Evaluation Seminar conducted 3. Mandatory Accreditation Programme for Directors of Public Listed Companies (Kuala Lumpur, Malaysia) 4. Directors Training: Role of Company Director and Regulatory Framework and Board Practices Overview of Risk Management (Mandaluyong City)	1. Risks, Opportunities, Assessment and Management, Inc. 2. The Hong Kong Institute of Directors 3. Bursatra Sdn. Bhd. 4. The Hong Kong Institute of Directors
Eduardo M. Cojuangco, Jr.	September 19, 2014	Corporate Governance Seminar (Mandaluyong City)	SGV & Co.
Eric O. Recto	1. May 28, 2014 2. July 11 and 12, 2012	1. Corporate Governance Seminar (Makati City) 2. Mandatory Accreditation Programme for Directors of Public Listed Companies (Kuala Lumpur, Malaysia)	1. Risks, Opportunities, Assessment and Management, Inc. 2. Bursatra Sdn. Bhd.
Lubin B. Nepomuceno	August 5, 2014	“Creating Advantage Through Governance” (Mandaluyong City)	SGV & Co.
Aurora T. Calderon	1. September 19, 2014 2. July 11 and 12, 2012	1. Corporate Governance Seminar (Mandaluyong City) 2. Mandatory Accreditation Programme for Directors of Public Listed Companies (Kuala Lumpur, Malaysia)	1. SGV & Co. 2. Bursatra Sdn. Bhd.
Artemio V. Panganiban	1. February 4, 2014 2. November 19, 2012	1. Corporate Governance & Risk Management Summit (Makati City) 2. Corporate Governance Forum on “Navigating the New World of Business	1. Institute of Corporate Directors 2. First Pacific Leadership Academy

		(Pasig City)	
Reynaldo G. David	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Mirzan Mahathir	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Nelly Favis-Villafuerte	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Romela M. Bengzon	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Margarito B. Teves	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Estelito P. Mendoza	September 19, 2014	Corporate Governance Seminar (Mandaluyong City)	SGV & Co.
Virgilio S. Jacinto	September 19, 2014	Corporate Governance Seminar (Mandaluyong City)	SGV & Co.
Jose P. de Jesus	September 26, 2014	Corporate Governance Seminar (Mandaluyong City)	SGV & Co.
Ron W. Haddock	November 7, 2014	Corporate Governance Seminar (Mandaluyong City)	SGV & Co.
Emmanuel E. Eraña	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Susan Y. Yu	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Rowena O. Cortez	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Freddie P. Yumang	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Albertito S. Sarte	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Efren P. Gabrillo	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Joel Angelo C. Cruz	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.
Rodulfo L. Tablante	August 5, 2014	"Creating Advantage Through Governance" (Mandaluyong City)	SGV & Co.

## B. CODE OF BUSINESS CONDUCT & ETHICS

1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>One of the express duties of a director under the CG Manual is to conduct fair business transactions with the Company, fully disclose to the Board any interest he may have in any matter or transaction to be acted upon by the Board and recuse himself in the Board's decision-making process with respect thereto and, in general, ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or does not prejudice Board decisions.</p> <p>A director who has a continuing material conflict of interest</p>	<p>The conflict of interest policy of the Company is enunciated in a number of policies of the Company.</p> <p><u>Personnel Manual</u></p> <p>The primary conflict of the interest policy of the Company is set out in the Personnel Manual.</p> <p>As a condition for employment, all incoming officers and employees are required to execute a conflict of interest undertaking that they have read the conflict of interest policy and that they will abide by its terms.</p> <p>A conflict between the personal interest of the officer/employee and the interest of the Company in dealing with suppliers, customers, and all other organizations or individuals doing or seeking to do business with the Company or any of its affiliates must be avoided.</p> <p>The following cases are considered to be in conflict with the Company's interest, or a violation of trust, and must be disclosed to</p>	<p>The conflict of interest policy of the Company as described in the preceding column on senior management applies to employees as well.</p>



	<p>should seriously consider resigning from his position. A conflict of interest is considered material if the director's personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company.</p>	<p>Management (through the Conflict of Interest Committee) :</p> <p>(1) For officers, employees or any dependent member of their families to have any interest in any organization which has, or is seeking to have business dealings with the Company where there is opportunity for preferential treatment to be given or received except where such interest comprises ownership of securities in widely-held or publicly listed corporations which are quoted and sold in the open market or where such interest in a private corporation is not material;</p> <p>(2) For officers, employees or any dependent members of their families to buy for any commercial purpose, sell or lease any kind of product, property, facilities or equipment from or to the Company;</p> <p>(3) For officers or employees to serve as an officer or director of any other company, or in any management capacity for, or as a consultant to any individual, firm, or other company competing, doing or seeking to do business with the Company or any affiliate.</p> <p>"Dependent member of the family" shall mean an employee's relative by</p>	
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		<p>blood or affinity, within the third civil degree, whether or not such relative is actually dependent for his livelihood or support on the employee, or any relative of more remote degree or any other person who is dependent on the employee.</p> <p>The following situations are prohibited and should not be done in any case:</p> <p>(1) For officers or employees, without proper authority:</p> <p>a. to give or release to anyone not employed by the Company any data or information of a confidential nature concerning the Company, such as, but not limited to, those relating to decisions, plans, earnings, financial or business forecasts, or competitive bids; and</p> <p>b. to use such information not generally known to the public for his personal advantage;</p> <p>c. to acquire or induce others to acquire such information which may be used against the Company;</p> <p>(2) For officers, employees or any dependent member of their families to accept or to solicit in exchange for a</p>	
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		<p>favor given or to be extended, commissions, share in profits, gifts in cash, gift certificates or other payments, loans or advances (other than from established banking or financial institutions), materials, services, repairs or improvements at no cost or at unreasonably low prices, manifestly excessive or extravagant entertainment, travel or gifts of merchandise which are more than nominal value or significant value from any organization, firm or individual, doing or seeking to do business with the Company;</p> <p>(3) For officers or employees to engage in "insider trading" of shares of stock of the Company by using material information not generally known to the investing public but acquired by the officer or the employee by virtue of his work or functions in the Company.</p> <p>The conflict of interest policy is enforced through the requirement for the execution by incoming officers and employees, as a condition for employment, of the conflict of interest undertaking conflict of interest undertaking that documents the affirmation by the signatory that he has read the policy and agrees to abide by its terms and that he is not in a conflict</p>	
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		<p>of interest situation and, in the event he that he will be, he will disclose the same to Management through the Conflict of Interest Committee.</p> <p><u>Corporate Policy Manual</u></p> <p>The Corporate Policy Manual of the Company revised on April 26, 2000 (the “Corporate Policy Manual”) also contains a policy statement against conflict of interest that requires officers and employees to avoid any conflict between personal interest and the interest of the Company in dealing with suppliers, customers and all other organizations and individuals doing to seeking to do business with the Company or any of its affiliates.</p> <p><u>Code of Conduct</u></p> <p>The Code of Conduct of Conduct reiterates the conflict of interest policy of the Company that proscribes the engagement in any business relationship or activity which might detrimentally conflict with the interest of the Company.</p> <p>Under its terms, a conflict of interest, actual or potential, may arise where, directly or indirectly, where (a) one engages in a business relationship or activity with anyone who is party to a transaction with the</p>	
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		<p>Company, (b) one is in a position to derive a personal benefit or a benefit by making or influencing decisions relating to any transaction, (c) an independent judgment of the Company's best interest cannot be exercised, and (d) an employee with close relative(s) is employed by another oil company.</p> <p>A full disclosure of any interest which the director, his immediate family or close relatives and friends may have in the Company is required to be made.</p> <p>The Code of Conduct further generally prohibits against (a) taking a business or financial opportunity that Petron would have an interest in pursuing, (b) using Company property, information or position for personal gain; and (c) competing with the Company.</p>	
<p>(b) Conduct of Business and Fair Dealings</p>	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence.</p> <p>In any business or dealing in which a director acts in his capacity as director of the Company, he should thus act in the best interest of the Company in a manner characterized by transparency, accountability and</p>	<p><u>Corporate Policy Manual</u></p> <p>Under the Corporate Policy Manual, it is the policy of the Company maintain a respectable reputation in the business community in exercising the highest level of honesty, integrity, competence and prudence in the conduct of its operations.</p> <p>The Corporate Policy Manual requires that the Company only deal with</p>	<p>The conduct of business and fair dealings policy of the Company as described in the preceding column on senior management applies to employees as well.</p>

	<p>fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p>	<p>licensed, reputable, reliable, competent and responsible suppliers and contractors which have passed the pre-qualification requirements of the Company.</p> <p><u>Code of Conduct</u></p> <p>The Code of Conduct further embodies Petron's commitment to conduct its business affairs fairly, honestly, impartially, in good faith and in an uncompromising ethical and proper manner and requires, among others, the following:</p> <ol style="list-style-type: none"> <li>1. Being guided at all times by the Company's vision and mission which highlight professionalism, integrity, fairness commitment to excellence and care of the environment;</li> <li>2. dealing with professionalism, honesty, integrity and uphold high moral and ethical standards;</li> <li>3. dealing openly and honestly with customers, suppliers, contractors, financial institutions and joint venture participants of the Company and dealings on arm's length basis with dealers, contractors, vendors</li> </ol>	
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		<p>and suppliers of the Company;</p> <ol style="list-style-type: none"> <li>4. supply of goods and services of the highest quality standards backed by efficient after sales service;</li> <li>5. conduct of business affairs in a manner that preserves the environment and protects the health and safety of all its employees, customers, suppliers, contractors and the general public;</li> <li>6. competing fairly and ethically within the framework of applicable competition laws; and</li> <li>7. except as may be permitted by the Board, not (a) taking a business or financial opportunity that Petron would have an interest in pursuing, (b) using Company property, information or position for personal gain; and (c) competing with the Company.</li> </ol> <p>The Code of Conduct also requires fair dealings with the Company's suppliers, contractors, competitors, officers and employees with no one taking unfair advantage of anyone through manipulation, concealment or abuse of privileged information, misrepresentation of material facts or any other unfair dealing</p>	
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		practice.	
(c) Receipt of gifts from third parties	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>While there is no specific receipt of gifts policy applicable to directors, the foregoing policy that a director's office is one that demands prudence and integrity already provides the guidelines in the acceptance by a director of gifts that may be prohibited by law or the Company receipt of gifts policy that applies to officers and employees.</p>	<p><u>Code of Conduct</u></p> <p>The Code of Conduct expressly provides that the giving or accepting gifts that equal more than the amount that would be considered customary courtesies may be deemed a bribe and that bribes are strictly prohibited by law and are against Company policy.</p> <p>The Company prohibits the solicitation, receipt, offer or making, directly or indirectly, of any illegal payments, remuneration, gifts, favors, commissions, donations, or comparable benefits which are intended or perceived to obtain business or uncompetitive favors for the conduct of business.</p> <p>The Code of Conduct further generally prohibits the solicitation and acceptance of loans, preferential discounts, extended credits, gifts, gratuities, remuneration, commissions, valuable privileges, vacations or trips, entertainment or other treatment special or excessive/extravagant in nature from a person or organization that might influence, or appear to influence, the performance of duties or to favor a dealer, contractor, supplier, vendor or competitor against the best interest of the Company.</p> <p>Lending money to, or</p>	The receipt of gifts rule as described in the preceding column on senior management applies to employees as well.



		<p>borrowing money from, any customer, dealer, contractor, vendor or supplier is also strictly prohibited.</p> <p>Under no circumstances will the acceptance or giving of gifts in monetary form be allowed.</p> <p>The Code also expressly provides that anyone who is offered or receives an inappropriate gift must refuse or return it in a tactful and dignified manner, advising the giver of the Company's policy that prohibits acceptance of such gifts.</p> <p><u>Personnel Manual</u></p> <p>Under the conflict of interest policy of the Personnel Manual, officers, employees or any dependent member of their families is prohibited from accepting or soliciting in exchange for a favor given or to be extended commissions, share in profits, gifts in cash, gift certificates or other payments, loans or advances (other than from established banking or financial institutions), materials, services, repairs or improvements at no cost or at unreasonably low prices, manifestly excessive or extravagant entertainment, travel or gifts of merchandise which are more than nominal value or significant value from any organization, firm or</p>	
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		<p>individual, doing or seeking to do business with the Company.</p> <p>The receipt of gift policy of the Company is enforced through the requirement for the execution by incoming officers and employees, as a condition for employment, of the conflict of interest undertaking that specifically includes the undertaking to comply with such receipt of gift policy.</p>	
(d) Compliance with Laws & Regulations	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>Under the CG Manual, one of the specific duties of a director is to have a working knowledge of the statutory and regulatory requirements affecting the Company, including the rules and regulations or requirements of the SEC, and where applicable, the requirements of other relevant regulatory agencies.</p>	<p>The Code of Conduct mandates the knowledge and respect of and compliance with the letter and spirit of applicable laws, rules and regulations of places in which Company conducts its business or those applicable to the Company.</p>	<p>The policy on compliance with laws and regulations as described in the preceding column on senior management applies to employees as well.</p>
(e) Respect for Trade	The conflict of interest	Code of Conduct	The policy on the use of

<p>Secrets/Use of Non-public Information</p>	<p>policy in the Personnel Manual, to the extent that it relates to the non-disclosure of confidential information, is made expressly applicable to the directors of the Company. The non-disclosure obligation provides the prohibition against (a) giving or releasing to anyone not employed by the Company any data or information of a confidential nature concerning the Company, such as, but not limited to, those relating to decisions, plans, earnings, financial or business forecasts, or competitive bids, (b) the use of such information not generally known to the public for his personal advantage, or (c) acquiring or inducing others to acquire such information which may be used against the Company.</p> <p>Moreover, the CG Manual also sets as a policy that directors observe confidentiality with respect to all matters coming before the Board.</p>	<p>The Code of Conduct requires the confidentiality of information entrusted by the Company or its customers or business partners.</p> <p>The Code of Conduct also requires fair dealings with the Company’s suppliers, contractors, competitors, officers and employees with no one taking unfair advantage of anyone through manipulation, concealment or abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice.</p> <p>The obligation extends to all “Confidential information” which includes all non-public business, financial, personnel or technical information, processes or systems, whether or not in electronic form, related to any portion of Petron’s business operations that have been learned, generated or acquired in dealings with the Company.</p> <p>The Code of Conduct provides for the following:</p> <p><u>Company Information</u></p> <ul style="list-style-type: none"> <li>• The use of confidential or proprietary information or trade secrets that might be of use to competitors of the Company, or</li> </ul>	<p>non-public information as described in the preceding column on senior management applies to employees as well.</p>
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		<p>harmful to the Company or its customers or business partners, if disclosed, is prohibited.</p> <ul style="list-style-type: none"> <li>• No disclosure of any information that, upon its release, would be likely to affect the market price of Petron stock should be made.</li> </ul> <p><u>Third Party Information</u></p> <ul style="list-style-type: none"> <li>• The confidential or proprietary information or trade secrets belonging or relating to any supplier, vendor, contractor, consultant, former employee or other person or entity should not be solicited, received or used, except as may be lawfully received from the owner or an authorized third party.</li> </ul> <p><u>Personnel Manual</u></p> <p>The conflict of interest policy in the Personnel Manual also covers the non-disclosure obligation of officers and employees that provides the prohibition against (a) giving or releasing to anyone not employed by the Company any data or information of a confidential nature concerning the Company, such as, but not limited to, those relating to decisions, plans, earnings, financial or business</p>	
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		<p>forecasts, or competitive bids, (b) the use of such information not generally known to the public for his personal advantage, or (c) acquiring or inducing others to acquire such information which may be used against the Company.</p> <p>The policy on the non-disclosure of non-public information is enforced through the requirement for the execution by incoming officers and employees, as a condition for employment, of the conflict of interest undertaking that specifically includes the statement that such officers or employees have read the policy. In addition, the undertaking includes the agreement not to engage in “insider trading” by using information of the Company not generally available to the public and acquired by virtue of the work performed for the Company.</p>	
(f) Use of Company Funds, Assets and Information	The CG Manual embodies the policy that a director’s office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.	<p><u>Code of Conduct</u></p> <p>The Code of Conduct highlights the policy for the responsible use of all Petron property through the following:</p> <ol style="list-style-type: none"> <li>1. protection of corporate information and intellectual property;</li> <li>2. use of equipment, tools, materials, supplies, employee time and other</li> </ol>	The policy on the use of company assets as described in the preceding column on senior management applies to employees as well.

	<p>The CG Manual also sets as a policy that directors observe confidentiality with respect to all matters coming before the Board.</p> <p>With respect to other forms of Company property, while there is no specific policy on the use thereof applicable to directors, the responsible use of such property forms part of the accountability of the director to the Company.</p>	<p>Company resources only for Petron's legitimate business interests;</p> <ol style="list-style-type: none"> <li>3. lending and disposition of company assets in accordance with appropriate Petron policies;</li> <li>4. use of Company assets (both tangible assets such as equipment and machinery, systems, facilities, materials, and resources, as well as intangible assets such as proprietary information, relationships with customers, dealers and suppliers) solely for legitimate business;</li> <li>5. safeguarding of company property from loss, damage, theft, abuse and damage;</li> <li>6. spending of funds for valid business purposes only at prices representing the best value to the Company;</li> <li>7. holding in trust, properly accounting for and remittance and proper administration of all monies coming into one's possession in trust for other persons or for the Company; and</li> <li>8. prohibition against sending rude, obscene or harassing materials via any</li> </ol>	
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		electronic means.	
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<p>(g) Employment &amp; Labor Laws &amp; Policies</p>	<p>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 By-laws. Any director elected in the interim will serve for the remaining term until the next annual meeting of the stockholders.</p>	<p>The Corporate Manual Policy sets out the policy of the Company that only mentally, physically and morally qualified candidates are recruited and hired for each job opening. Present employees of the Company are given priority for suitable job openings or vacancies. In the absence of qualified employees, the Company hires from outside sources.</p> <p>It is the general policy of the Company to require of officers and employees knowledge and respect of and compliance with the letter and spirit of applicable laws, rules and regulations of places in which Company conducts its business or those applicable to the Company.</p> <p>The Corporate Manual Policy also provides for specific employment-related policies, such as the following:</p> <ol style="list-style-type: none"> <li>1. establishment of standard terms and conditions of employment for its employees in any function, location and office which must be observed by all employees;</li> <li>2. respect for the rights of its employees to form organizations in accordance with law for collective</li> </ol>	<p>The policy on employment and labor laws and regulations as described in the preceding column on senior management applies to employees as well.</p>
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		<p>bargaining; and</p> <p>3. compliance with labor laws and rules in respect of imposing disciplinary action.</p>	
(h) Disciplinary action	<p>The bases for disciplinary actions against the directors are set out in the CG Manual which provides for the grounds for temporary and permanent disqualifications.</p> <p>The procedure for implementing the disqualification is explained in Item A(5)(b) above on “Selection/Appointment, Re-Election, Disqualification, Removal, Reinstatement and Suspension”.</p>	<p>Under the Corporate Policy Manual and the Personnel Manual, any regular, probationary or contractual employee in any function or location, irrespective of position or classification, who commits an offense against the Company, its property or its personnel is subject to disciplinary action.</p> <p>Any disciplinary action, which may include suspension and dismissal for a just or authorized cause provided by law or Company regulation, is carried out in accordance with provisions of existing labor laws and rules.</p>	<p>The policy on disciplinary actions as described in the preceding column on senior management applies to employees as well.</p>
(i) Whistle Blower	<p>Prior to the adoption by the Board on May 6, 2013 of the <i>Petron Corporation and Subsidiaries Whistle-blowing Policy</i> whistle-blowing policy as disclosed to the SEC through an SEC Form 17-C filed on May 9, 2013, the Company, as a subsidiary of San Miguel Corporation, observed the <i>San Miguel Corporation and Subsidiaries Whistle-blowing Policy</i>.</p> <p>The salient terms of both policies are as follows:</p> <p>1. Accounting, internal</p>	<p>The whistle-blowing policy as described in the preceding column on directors applies to officers as well.</p>	<p>The whistle-blowing policy as described in the preceding columns on directors and officers applies to employees as well.</p>

	<p>accounting controls, auditing or financial reporting concerns may be communicated to the General Counsel and Compliance Officer (the “Compliance Officer”).</p> <p>2. All communications received by the Compliance Officer will be kept confidential and all relevant communications to be distributed to the Audit Committee.</p> <p>3. The Audit Committee will determine necessary or appropriate action or response; and</p> <p>4. Retaliation in any form against any interested party who, in good faith, raises a concern or reports a possible violation will not to be tolerated.</p> <p>The Company also maintains its website and hotlines through which concerns of any party may be relayed to the Company for appropriate investigation and/or action.</p>		
(j) Conflict Resolution	It is the policy of the Company to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences.	It is the policy of the Company to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences.	It is the policy of the Company to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences.

	<p>This is embodied in the CG Manual which specifically requires the Board to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities.</p>	<p>This is embodied in the CG Manual which specifically requires the Board to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities.</p>	<p>This is embodied in the CG Manual which specifically requires the Board to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities.</p>
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**2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?**

Yes. Copies of the Code of Conduct were distributed to directors, officers and employees and are readily available with the Human Resources Management and Development Department of the Company. The Code of Conduct is also available on the Petron intranet "*Petron Hub*".

**3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.**

The Code of Conduct forms part of the orientation of new employees of the Company and copies are distributed during the orientation. Copies of the Code of Conduct are also readily available with the Human Resources Management and Development Department of the Company. Under the terms of the Code of Conduct, every employee and officer has the responsibility, and it is the policy of the Company to encourage employees and officers, to ask questions, seek guidance and report suspected violations of the code. Each employee is required to know, understand and adhere to the Code of Conduct. All supervisors and managers are mandated to ensure that their subordinates comply with its provisions.

A failure to comply with the provisions of the Code of Conduct will subject an employee to discipline that may include counseling, reprimand, suspension and/or termination, in addition to any civil or criminal liability under existing laws. Due process will be followed. Disciplinary measures will depend on the circumstances of the violation and will be made in accordance with the provisions of the Personnel Manual and the Company Rules and Regulations on Discipline.

**4) Related Party Transactions**

**(a) Policies and Procedures**

**Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.**

Related Party Transactions	Policies and Procedures
(1) Parent Company	<p>Transactions between the Company and its parent company are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.</p> <p>Pursuant to the requirements of the CG Manual, the Corporation fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with the Philippine Financial Reporting Standards ("PFRS") and in the Definitive Information Statement and the annual report (SEC Form 17-A).</p>
(2) Joint Ventures	<p>Transactions between the Company and its joint ventures are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.</p> <p>Pursuant to the requirements of the CG Manual, the Corporation fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS and in the Definitive Information Statement and the annual report (SEC Form 17-A).</p>
(3) Subsidiaries	<p>Transactions between the Company and its subsidiaries are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.</p> <p>Pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the</p>

	<p>normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS and in the Definitive Information Statement and the annual report (SEC Form 17-A).</p>
(4) Entities Under Common Control	<p>Transactions between the Company and its affiliates are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.</p> <p>Pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS, the Definitive Information Statement and the annual report (SEC Form 17-A).</p>
(5) Substantial Stockholders	<p>Transactions between the Company and its substantial stockholders are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.</p> <p>Pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS, the Definitive Information Statement and the annual report (SEC Form 17-A).</p>
(6) Officers including spouse/children/siblings/parents	<p>Transactions of an officer (including his spouse, children, siblings and parents) with the Company are considered a situation of conflict of interest that must be disclosed to Management through the Conflict of Interest Committee. As a condition of employment, officers are required to sign a conflict of interest undertaking that documents the affirmation by the signatory that he is not in a conflict of interest situation and, in the event he that he will be, he will disclose the same to Management through the Conflict of Interest Committee.</p>

	<p>Under the conflict of interest policy of the Company as embodied in the Corporate Policy Manual and the Personnel Manual, the restriction extends to an officer's relative by blood or affinity, within the third civil degree, whether or not such relative is actually dependent for his livelihood or support on such officer, or any relative of more remote degree or any other person who is dependent on such officer.</p> <p>Pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS, the Definitive Information Statement and the annual report (SEC Form 17-A).</p> <p>Further to the above, and in compliance with the requirements of the Corporation Code for contracts between the Company and an officer, the Company ensures that any such contract is fair and reasonable under the circumstances, the presence of such director in the meeting to approve the transaction should not be required for quorum purposes, his vote should not be necessary to approve such transaction, and the Board should have approved such transaction.</p> <p>In 2013 and 2012, the Company did not have any transaction with any officer of the Company.</p>
<p>(7) Directors including spouse/children/siblings/parents</p>	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>One of the express duties of a director under the CG Manual is to conduct fair business transactions with the Company, fully disclose to the Board any interest he may have in any matter or transaction to be acted upon by the Board and recuse himself in the Board's decision-making process with respect thereto and, in general, ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or does not prejudice Board decisions.</p> <p>A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest is considered material if the director's</p>

	<p>personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company.</p> <p>And pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).</p> <p>The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS, the Definitive Information Statement and the Annual Report (SEC Form 17-A).</p> <p>Further to the above, and in compliance with the requirements of the Corporation Code for contracts between the Company and a director, the Company ensures that any such contract is fair and reasonable under the circumstances, the presence of such director in the meeting to approve the transaction should not be required for quorum purposes and his vote should not be necessary to approve such transaction.</p> <p>In 2013 and 2012, the Company did not have any transaction with any director of the Company.</p>
(8) Interlocking director relationship of Board of Directors	<p>The CG Manual embodies the policy that a director's office is one of trust and confidence. A director shall thus act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He shall exercise leadership, prudence and integrity in directing the Company towards sustained progress.</p> <p>One of the express duties of a director under the CG Manual is to conduct fair business transactions with the Company, fully disclose to the Board any interest he may have in any matter or transaction to be acted upon by the Board and recuse himself in the Board's decision-making process with respect thereto and, in general, ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or does not prejudice Board decisions.</p> <p>A director who has a continuing material conflict of interest should seriously consider resigning from his position. A conflict of interest is considered material if the director's personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company.</p>

	And in compliance with the requirements of the Corporation Code for contracts between the Company and another company with which the Company has interlocking directors, the Company ensures that any such contract is fair and reasonable under the circumstances and that, in the event the interest of the interlocking director in the other corporation exceeds 20% of the outstanding capital stock and his interest in the Company is merely nominal, the Company should also ensure that the presence of such interlocking director in the meeting to approve the transaction should not be required for quorum purposes and his vote should not be necessary to approve such transaction.
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**(b) Conflict of Interest**

**(i) Directors/Officers and 5% or more Shareholders**

**Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.**

While the arrangements listed below may be deemed conflict of interest situations simply because of the relationship between the Company and its substantial holder, it is the policy and practice of the Company that transactions between the Company and its parent, subsidiaries, associates and joint ventures are on an arm's length basis in a manner similar to transactions with non-related parties.

Such transactions are therefore made at normal market prices and terms. Furthermore, an assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.

	<b>Details of Conflict of Interest (Actual or Probable)</b>
Name of Director/s	None.
Name of Officer/s	None.
<u>Name of Significant Shareholders</u>	
1. San Miguel Corporation	1. The Company pays its parent company, San Miguel Corporation, a share in common expenses such as utilities and management fees.
2. Petron Corporation Employees' Retirement Plan	2. The Company advanced certain monies to Petron Corporation Employees' Retirement Plan.



**(ii) Mechanism**

**Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.**

	<b>Directors/Officers/Significant Shareholders</b>
Company	<p>The conflict of interest policy of the Company as embodied in the Corporate Policy Manual and the Personnel Manual requires the execution by each officer and employee of an undertaking under which he expressly states that he is in compliance with such policy, will conduct himself according with the terms thereof and is not presently in violation of it, with the further undertaking to inform Management through the Conflict of Interest Committee in the event he becomes involved in a conflict of interest situation.</p> <p>A Conflict of Interest Committee (composed of the Vice Presidents for Human Resources and Management Department, Corporate Planning, National Sales, and Refinery, and the Treasurer or the Controller) is formed to assist the Chairman and the President in the implementation of the conflict of interest policy by performing the following responsibilities:</p> <ol style="list-style-type: none"><li>1. review and make recommendations on the application of the conflict of interest policy and associated procedures to assure consistent application;</li><li>2. review and make recommendations on any specific conflict of interest situation raised; and</li><li>3. investigate any violation of the policy and recommend to the Chairman and the President the appropriate course of action (any situation that poses remote or insignificant danger or prejudice to the Company need not be elevated to the Chairman and the President, except when the officer involved is a member of the Conflict of Interest Committee).</li></ol> <p>The General Counsel of the Company as the secretary of the Conflict of Interest Committee reviews all conflict of interest undertakings executed and reports to the committee any relevant conflict of interest situation.</p> <p>The conflict of interest policy provides that any violation thereof may result in disciplinary action, including termination for cause.</p> <p>Related party transactions of Company are on an arm's</p>

	length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.
Group	The discussion on the implementation of the conflict of interest policy of the Company as above-discussed in the immediately preceding row in relation to the Company applies to conflict of interest situations in the rest of the Petron Group as well.

## 5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>4</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
San Miguel Corporation and SEA Refinery Corporation	Parent-Subsidiary	San Miguel Corporation wholly owns SEA Refinery Corporation.

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
San Miguel Corporation	Shared Services	The Company pays San Miguel Corporation a share in common expenses such as utilities and management fees.
Petron Corporation Employees' Retirement Plan	Advances	The Company advanced certain monies to Petron Corporation Employees' Retirement Plan

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
None.	None.	None.

The Company is not aware of any.

<sup>4</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

## 6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

<b>Alternative Dispute Resolution System</b>	
<b>Corporation &amp; Stockholders</b>	It is the policy of the Company under the CG Manual to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities. To this end, the Company encourages negotiations with stockholders to settle differences. The Company has its Office of the Corporate Secretary, investor relations unit under the CFO, and stock transfer agent to reply to concerns of stockholders.
<b>Corporation &amp; Third Parties</b>	It is the policy of the Company under the CG Manual to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities. In pursuance of this policy, the Company encourages negotiations with third parties to settle differences. The Company likewise has agreed under certain contractual arrangements to resolve issues through alternative modes of dispute resolution other than litigation, such as arbitration.
<b>Corporation &amp; Regulatory Authorities</b>	It is the policy of the Company under the CG Manual to encourage the use of alternative modes of dispute resolution for amicable settlement of conflicts or differences between the Company and its stockholders, and the Company and third parties, including the regulatory authorities. To this end, the Company works closely with relevant government agencies and maintains strong lines of communication with them.

## C. BOARD MEETINGS & ATTENDANCE

### 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Yes, board meetings are scheduled before the beginning of the year. The schedule of the board meetings for 2012 was presented to the Board at the board meeting held on December 1, 2011. The schedule of the board meetings for 2013 was presented to the Board at the board meeting held on November 12, 2012. For 2014, the schedule of the board meetings was presented to the Board at the board meeting held on November 4, 2013. The schedule of the board meetings for 2015 was presented to the Board at the board meeting held on November 7, 2014.

### 2) Attendance of Directors *(updated pursuant to the advisement letter on attendance of directors at meetings held in 2014, which was filed by the Company with the SEC on January 6, 2014, and meetings held in 2013, which was filed by the Company with the SEC on January 28, 2014)*

**2014**

Board	Name	Date of Election	No. of Board Meetings Held during the year (2014)	No. of Meetings Attended	%
Chairman	Ramon S. Ang	January 8, 2009	7	7	100
Member	Eduardo M. Cojuangco, Jr.	January 8, 2009	7	7	100
Member	Roberto V. Ongpin	July 31, 2008	3 (during his term)	2	67
Member	Estelito P. Mendoza	January 8, 2009	7	5	71
Member	Bernardino R. Abes	July 31, 2001	3 (during his term)	2	67
Member	Eric O. Recto	July 31, 2008	7	7	100
Member	Lubin B. Nepomuceno	February 19, 2013	7	7	100
Member	Mirzan Mahathir	August 13, 2010	7	7	100
Member	Ron W. Haddock	December 2, 2008	7	7	100
Member	Virgilio S. Jacinto	August 13, 2010	7	7	100
Member	Aurora T. Calderon	August 13, 2010	7	7	100
Member	Romela M. Bengzon	August 13, 2010	7	7	100
Member	Nelly Favis-Villafuerte	December 1, 2011	7	7	100
Member	Jose P. de Jesus	May 20, 2014	4 (during his term)	3	75
Independent	Reynaldo G. David	May 12, 2009	7	7	100
Independent	Artemio V. Panganiban	October 21, 2010	7	7	100
Independent	Margarito B. Teves	May 20, 2014	4 (during his term)	4	100

**2013**

Board	Name	Date of Election	No. of Board Meetings Held during the year (2013)	No. of Meetings Attended	%
Chairman	Ramon S. Ang	January 8, 2009	6	6	100
Member	Eduardo M. Cojuangco, Jr.	January 8, 2009	6	6	100
Member	Roberto V. Ongpin	July 31, 2008	6	5	83
Member	Estelito P. Mendoza	January 8, 2009	6	5	83
Member	Bernardino R. Abes	July 31, 2001	6	6	100
Member	Eric O. Recto	July 31, 2008	6	6	100
Member	Lubin B. Nepomuceno*	February 19, 2013	5 (during his term)	5 (during his term)	100
Member	Mirzan Mahathir	August 13, 2010	6	3	50
Member	Ron W. Haddock	December 2, 2008	6	5	83
Member	Ferdinand K. Constantino*	August 13, 2010	1 (during his term)	1 (during his term)	100
Member	Virgilio S. Jacinto	August 13, 2010	6	6	100
Member	Aurora T. Calderon	August 13, 2010	6	6	100
Member	Romela M. Bengzon	August 13, 2010	6	5	83
Member	Nelly Favis-Villafuerte	December 1, 2011	6	5	83
Independent	Reynaldo G. David	May 12, 2009	6	5	83
Independent	Artemio V. Panganiban	October 21, 2010	6	6	100

\*Mr. Ferdinand K. Constantino was replaced by Mr. Lubin B. Nepomuceno as a director on February 19, 2013 as disclosed to the SEC through an SEC Form 17-C filed on February 20, 2013.

2012

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Ramon S. Ang	January 8, 2009	5	5	100
Member	Eduardo M. Cojuangco, Jr.	January 8, 2009	5	5	100
Member	Estelito P. Mendoza	January 8, 2009	5	5	100
Member	Roberto V. Ongpin	July 31, 2008	5	5	100
Member	Eric O. Recto	July 31, 2008	5	5	100
Member	Mirzan Mahathir	August 13, 2010	5	3	60
Member	Bernardino R. Abes	July 31, 2001	5	5	100
Member	Ron W. Haddock	December 2, 2008	5	5	100
Member	Ferdinand K. Constantino	August 13, 2010	5	5	100
Member	Virgilio S. Jacinto	August 13, 2010	5	5	100
Member	Aurora T. Calderon	August 13, 2010	5	3	60
Member	Romela M. Bengzon	August 13, 2010	5	5	100
Member	Nelly Favis-Villafuerte	December 1, 2011	5	5	100
Independent	Reynaldo G. David	May 12, 2009	5	5	100
Independent	Artemio V. Panganiban	October 21, 2010	5	5	100

**3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?**

No meeting of all the non-executive directors without any executive was held between 2012 and 2014.

**4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.**

The By-laws provide that the quorum for board meetings is a majority of the directors. Nevertheless, in 2014, of the six (6) board meetings held, four (4) meetings had 100% attendance by the directors and the remaining meetings had at least 87% attendance. In 2012, three (3) meetings had 100% attendance by the directors. The other two (2) meetings had an attendance of 87%, more than two-thirds of the membership of the Board and more than the majority number required by the By-laws. In 2013, of the six (6) board meetings held, two (2) meetings had 100% attendance and the rest had at least 80% attendance.

**5) Access to Information**

**(a) How many days in advance are board papers<sup>5</sup> for Board meetings provided to the board?**

To ensure that ample time to review them is afforded the directors, board papers are distributed no later than one day in advance of board meetings.

**(b) Do board members have independent access to Management and the Corporate Secretary?**

Yes, the directors can independently communicate and get in touch with Management and the Corporate

<sup>5</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

Secretary. This independent access is set out as a specific policy of the Company under the CG Manual.

**(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?**

Section 10 of Article V of the By-laws sets out the role of the Corporate Secretary of (i) keeping corporate books and records and the minutes of the meetings of the stockholders and the, (ii) giving notice of all meetings of stockholders and directors and all other notices required by law or the By-laws, (iii) being the custodian of the records and of the seal of the Company, (iv) keeping a register of the addresses the stockholders, and (v) performing all duties incident to the office of Secretary, and such other duties as may, from time to time, be assigned to him by the Board.

In addition to his duties and responsibilities set forth above in the by-laws, Section 2.5 of the CG Manual further prescribes the role of the Corporate Secretary as follows:

- informs the directors and stockholders of the agenda of their meetings and gives all other notices required by law or by the B-laws;
- ensures that the members of the Board have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- attends all board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents prevent him from doing so; and
- ensures that all board procedures, rules and regulations are strictly followed by the members.

**(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.**

Yes. Atty. Joel Angelo C. Cruz, the Corporate Secretary of the Company, is at the same time the Vice President - General Counsel<sup>6</sup> and Compliance Officer of the Company. With his present position and legal and professional background, he has the legal skills of a general counsel and the knowledge of pertinent laws, rules and regulations necessary in the performance of duties and responsibilities of a Corporate Secretary and Compliance Officer. Atty. Cruz further possesses the following qualifications required for the position of Corporate Secretary: (1) Filipino citizenship and Philippine residence, (2) loyalty to the mission, vision and objectives of the Company, (3) willingness and ability to work fairly and objectively with the Board, Management and the stockholders of the Company, (4) appropriate administrative and interpersonal skills, and (5) working knowledge of the operations of the Company.

**(e) Committee Procedures**

**Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:**

Yes

No

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<sup>6</sup> Atty. Cruz was Assistant Vice President - General Counsel during year 2012 and was promoted to Vice President - General Counsel on March 18, 2013 effective February 2013 as disclosed to the SEC through an SEC Form 17-C filed on March 19, 2013.

Committee	Details of the procedures
Executive	Under the CG Manual, Management is required to provide complete, adequate and timely information about the matters to be taken during the meetings.
Audit	
Nomination	
Remuneration	
Others (specify)  Governance Committee	<p>In addition, the directors, individually or as a Board, may seek independent professional advice in the discharge of their duties at the expense of the Company.</p> <p>The directors are also given independent access to Management and the Corporate Secretary.</p> <p>Each of the board committees is also allowed to appoint an advisor who can attend and participate in meetings, but not to vote.</p>

## 6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
Under the CG Manual, the directors, individually or as a Board, may seek independent professional advice in the discharge of their duties, with the reasonable expenses therefor to be borne by the Company.	Upon reasonable request, the directors may engage professional advisers to assist them in the discharge of their duties as director of the Company at the expense of the Company, provided such expense is reasonable.
<p>The Audit, Nomination, and Compensation Committees are allowed to appoint advisor(s) to their respective committees. Advisors can attend and participate in the meetings of the committees they serve but have no right to vote.</p> <p>The appointment of advisors is specifically provided in the charter of the Audit Committee.</p> <p>While the charters of the Nomination and the Compensation Committee (which also specifically allow the appointment of advisors) were only formally adopted by the Board on May 6, 2013, the appointment of advisors was nevertheless a recognized prerogative of the committees as exemplified by the appointment by the Nomination Committee of its own advisor.</p>	<p>Atty. Virgilio S. Jacinto was appointed as advisor of the Nomination Committee. Atty. Jacinto is the Senior Vice President &amp; General Counsel/Compliance Officer of San Miguel Corporation. On May 21, 2013, Atty. Jacinto was appointed as a member of the Nomination Committee as disclosed through an SEC Form 17-C filed with the SEC on May 22, 2013 and re-appointed to the same position on May 20, 2014 appointed as such on May 20, 2014 as disclosed through an SEC Form 17-C filed with the SEC on May 21, 2014.</p> <p>Mr. Ferdinand K. Constantino was appointed as advisor of both the Audit Committee and the Compensation Committee on February 19, 2013 then re-appointed as such on May 21, 2013 and May 20, 2014 as disclosed through SEC Form 17-Cs filed with the SEC on February 20, 2013, May 22, 2013 and May 21, 2014, respectively.</p>

7) **Change/s in existing policies** (updated pursuant to the SEC Form 17-C filed by the Company dated July 3, 2014 in relation to the amendment of its CG Manual)

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
Audit Committee Charter	Amendments approved were for purposes of complying with the requirements of the SEC Memorandum Circular No 4, Series of 2012 relating to the assessment of the performance of the Audit Committees of listed companies.	The Audit Committee Charter was revised to comply with the requirements of applicable regulation.
Nomination Committee Charter	On May 5, 2013, the Board adopted the Nomination Committee Charter.	The Nomination Committee Charter was adopted to provide, in addition to the provisions of the CG Manual, the roles, responsibilities, and authority of the Nomination Committee and the rules of procedure that will guide the function of the Nomination Committee.
Compensation Committee Charter	On May 5, 2013, the Board adopted the Compensation Committee Charter.	The Compensation Committee Charter was adopted to provide, in addition to the provisions of the CG Manual, the roles, responsibilities, and authority of the Compensation Committee and the rules of procedure that will guide the function of the Compensation Committee.
CG Manual	On July 3, 2014, the Board approved the amendments to the CG Manual to comply with SEC Circular Memorandum No, 14, Series of 2014 and other relevant SEC circulars and guidelines.	The changes were primarily in compliance with the requirements of applicable circulars and guidelines issued by the SEC.



## REMUNERATION MATTERS

### 1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	The remuneration of the Company's top executives is determined based on achievement of corporate targets and their individual performance and contribution. The Company is committed to ensuring retention of top caliber talents for its critical positions, as such, the executives' remuneration is also anchored on movements in the labor market and industry, validated by a third party consultant through an annual total rewards survey.	The remuneration of the Company's top executives is determined based on achievement of corporate targets and their individual performance and contribution. The Company is committed to ensuring retention of top caliber talents for its critical positions, as such, the executives' remuneration is also anchored on movements in the labor market and industry, validated by a third party consultant through an annual total rewards survey.
(2) Variable remuneration	A variable pay package is also part and parcel of the executives' total compensation package that aims to provide contingent financial incentives to achieve the Company's annual business goals and objectives. It is designed to encourage and reward superior performance, achievements and behavior based on pre-established goals and objectives.	A variable pay package is also part and parcel of the executives' total compensation package that aims to provide contingent financial incentives to achieve the Company's annual business goals and objectives. It is designed to encourage and reward superior performance, achievements and behavior based on pre-established goals and objectives.
(3) Per diem allowance	None.	None.
(4) Bonus	Same as variable pay above-discussed.	Same as variable pay above-discussed.
(5) Stock Options and other financial instruments	None.	None.
(6) Others (specify)	None.	None.

**2) Remuneration Policy and Structure for Executive and Non-Executive Directors**

**Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.**

	<b>Remuneration Policy</b>	<b>Structure of Compensation Packages</b>	<b>How Compensation is Calculated</b>
Executive Directors	It is the policy of the Company, as set out in its CG Manual, to ensure, through the Compensation Committee, that the salaries and other remuneration of directors are set at a level adequate to attract and retain directors and officers with the qualifications and experience needed to manage the Company.	Executive directors receive fixed and variable remuneration consistent with the policy of the Company to set such remuneration at a level adequate to attract and retain executive directors with the qualifications and experience needed to manage the Company.	The compensation is based on achievement of corporate targets and individual performance and contribution.
Non-Executive Directors	It is the policy of the Company, as set out in its CG Manual, to ensure, through the Compensation Committee, that the salaries and other remuneration of directors are set at a level adequate to attract and retain directors and officers with the qualifications and experience needed by the Company.	Non-executive directors receive such amount as is adequate to attract and retain directors with the qualifications and experience needed by the Company.	The amounts received by non-executive directors are set at an amount as is adequate to attract and retain directors with the qualifications and experience needed by the Company.

**Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.**

There have been no changes to the remunerations scheme of the directors for the last three (3) years.

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

2013

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	P59.9M	P5.0M	P0.87M
(b) Variable Remuneration	None	N/A	N/A
(c) Per diem Allowance	N/A	P5.3M	P1.6M
(d) Bonuses	P9.9M	N/A	N/A
(e) Stock Options and/or other financial instruments	N/A	N/A	N/A
(f) Others (Specify)	N/A	N/A	N/A
<b>Total</b>	P69.8M	P10.3M	P2.47M

Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	N/A	N/A	N/A
2) Credit granted	N/A	N/A	N/A
3) Pension Plan/s Contributions	N/A	N/A	N/A
(d) Pension Plans, Obligations incurred	N/A	N/A	N/A
(e) Life Insurance Premium	N/A	N/A	N/A
(f) Hospitalization Plan	P0.99M	N/A	N/A
(g) Car Plan	P9.0M	N/A	N/A
(h) Others (Specify)	N/A	N/A	N/A
<b>Total</b>	P9.99M	N/A	N/A

2012

<b>Remuneration Item</b>	<b>Executive Directors</b>	<b>Non-Executive Directors (other than independent directors)</b>	<b>Independent Directors</b>
(g) Fixed Remuneration	P41.02M	P4.6M	P0.8M
(h) Variable Remuneration	15.12	N/A	N/A
(i) Per diem Allowance	N/A	P5.8M	P1.1M
(j) Bonuses	P6.34M	N/A	N/A
(k) Stock Options and/or other financial instruments	N/A	N/A	N/A
(l) Others (Specify)	N/A	N/A	N/A
<b>Total</b>	<b>P62.48M</b>	<b>P10.4M</b>	<b>P1.9M</b>

<b>Other Benefits</b>	<b>Executive Directors</b>	<b>Non-Executive Director (other than independent directors)</b>	<b>Independent Directors</b>
4) Advances	N/A	N/A	N/A
5) Credit granted	N/A	N/A	N/A
6) Pension Plan/s Contributions	N/A	N/A	N/A
(g) Pension Plans, Obligations incurred	N/A	N/A	N/A
(h) Life Insurance Premium	N/A	N/A	N/A
(i) Hospitalization Plan	P33M	N/A	N/A
(h) Car Plan	P6M	N/A	N/A
(i) Others (Specify)	N/A	N/A	N/A
<b>Total</b>	<b>P39M</b>	<b>N/A</b>	<b>N/A</b>

7) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
None.				

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
None.		

8) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

2013

Name of Officer/Position	Total Remuneration
Emmanuel E. Eraña – Senior Vice President and Chief Finance Officer	P45.5M
Efren P. Gabrillo – Vice President, Controllers & Controller	
Freddie P. Yumang – Vice President, Refinery	
Susan Y. Yu – Vice President, Procurement	
Archie B. Gupalor – Vice President, National Sales Division	

Name of Officer/Position	Total Remuneration
Lubin B. Nepomuceno – Senior Vice President and General Manager*	P75M
Emmanuel E. Eraña – Senior Vice President and Chief Finance Officer	
Efren P. Gabrillo – Assistant Vice President, Controllers & Controller	
Freddie P. Yumang – Vice President, Refinery	
Susan Y. Yu – Vice President, Procurement	

\* Elected as President on February 19, 2013 as disclosed to the SEC through an SEC Form 17- C filed on February 20, 2013.

## BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board: (updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014)

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	2 (in 2012)	1 (in 2012)	0 (in 2012)	Without	Under the By-laws and the CG Manual, the Executive Committee shall have and may exercise the powers of the Board when the Board is not in session in respect of the management of the business and affairs of the Company, except with respect to: (1) the approval of any action for which stockholders' approval is also required; (2) the filling of vacancies in the	The Executive Committee is responsible for the management of the business and affairs of the Company when the Board is not in session.	Under the By-laws and the CG Manual, the Executive Committee shall have and may exercise the powers of the Board when the Board is not in session in respect of the management of the business and affairs of the Company, except with respect to: (1) the approval of any action for which stockholders' approval is also required; (2) the filling of vacancies in the Board; (3) the amendment or repeal of B-laws or the adoption of new by-laws; (4) the amendment
	2 (in 2013)	1 (with 2 alternate) (in 2013)	0 (in 2013)				
	2 (in 2014)	1 (with 2 alternate) (in 2014)	0 (in 2014)				

					Board; (3) the amendment or repeal of B-laws or the adoption of new by-laws; (4) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; (5) a distribution of cash dividends to the stockholders; and (6) such other matters specifically excluded or limited by the Board.		or repeal of any resolution of the Board which by its express terms is not so amendable or repealable; (5) a distribution of cash dividends to the stockholders; and (6) such other matters specifically excluded or limited by the Board.
Audit	0 (in 2012)	3 (in 2012)	2 (in 2012)	With	Under the CG Manual and the Audit Committee Charter, the Audit Committee assists the Board in fulfilling its oversight responsibility of the Company's corporate governance processes relating to the (i) quality and integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls; (ii)	Under its charter, the Audit Committee will carry out the following duties and responsibilities:  I. Financial Statement and Disclosure Matters  • Reviews all financial statements against their compliance with pertinent accounting standards, internal financial management, as well as tax,	Under the Audit Committee Charter, the Audit Committee is empowered to (i) select and recommend the appointment or replacement of the external auditors to the Board; (ii) approve all auditing and non-audit services to be provided by and all fees to be paid to the external auditors; (iii) resolve any disagreements between Management and the auditor regarding financial reporting; (iv) seek any information it requires from
	0 (in 2013)	3 (in 2013)	2 (in 2013)				
	1 (in 2014)	2 (in 2014)	2 (in 2014)				

					<p>performance of the internal auditors;</p> <p>(iii) annual independent audit of the Company's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance;</p> <p>(iv) compliance by the Company with legal and regulatory requirements, including the Company's disclosure controls and procedures; and</p> <p>(v) evaluation of Management's process to assess and manage the Company's enterprise risk issues.</p>	<p>legal and other regulatory requirements</p> <ul style="list-style-type: none"> <li>• Reviews with management and the external auditors the results of the audit, including any difficulties encountered and issues warranting the attention of the Audit Committee.</li> <li>• Reviews with management, internal auditors and the external auditors all matters required to be communicated to the Audit Committee under generally accepted auditing standards.</li> </ul> <p>II. Performance of the Internal Controls</p> <ul style="list-style-type: none"> <li>• Considers the effectiveness of the Company's internal control system, including information</li> </ul>	<p>employees all of whom are directed to cooperate with the committee's requests; (v) meet with company officers, external auditors or outside counsel, as necessary; (vi) conduct and authorize investigations into any matter within the committee's scope of responsibilities</p>
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						<p>technology security</p> <ul style="list-style-type: none"> <li>• Understands the scope of internal and external auditor's review of internal controls over financial reporting and obtain reports on significant findings and recommendations, together with Management's response</li> </ul> <p>III. Internal Audit Function</p> <ul style="list-style-type: none"> <li>• Reviews with Management and the head of Internal Audit the charter, activities, and organizational structure of the internal audit function</li> <li>• Confirms the appointment or replacement by management of the head of the</li> </ul>	
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						<p>Internal Audit organization</p> <ul style="list-style-type: none"> <li>• Reviews and confirms the annual audit and strategic plans prepared by Internal Audit in consultation with Management, and major changes to the plans, if any</li> <li>• Reviews significant findings and Management's response including timetable for implementation to correct weaknesses; and any difficulties encountered by the auditors in the course of their audit (such as restrictions on the scope or access to information)</li> <li>• Supports the internal audit function and provides high-level follow-up of audit recommend</li> </ul>	
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						<p>ations when such action is needed</p> <ul style="list-style-type: none"> <li>• Reviews the effectiveness of the internal audit function, including compliance with the Standards for the Professional Practice of Internal Auditing</li> </ul> <p>IV. External Auditor's Qualifications, Independence and Performance</p> <ul style="list-style-type: none"> <li>• Reviews and evaluates, at least annually, the performance of the external auditors (including lead partner) and makes recommendations to the Board of Directors each year with respect to the appointment of the External Auditor</li> <li>• Reviews the</li> </ul>	
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						<p>external auditor's proposed audit scope and approach, including coordination effort with internal audit</p> <ul style="list-style-type: none"> <li>• Reviews and confirms the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company, including non-audit services and discusses the relationship with the auditors</li> <li>• Meets with the external auditors to discuss matters that the Audit Committee or internal audit believes should be deliberated privately.</li> </ul> <p>V. Compliance with Legal and Regulatory</p>	
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						<p>Requirements</p> <ul style="list-style-type: none"> <li>• Ascertains whether the Company has an effective process for determining risks and exposure from litigation and claims from non-compliance with laws and regulations</li> <li>• Reviews the results of Management's investigation and follows up on any instance of non-compliance (including disciplinary action)</li> <li>• Reviews findings resulting from examination by regulatory agencies as well as internal and external audits, if any</li> </ul> <p>VI. Reporting</p> <ul style="list-style-type: none"> <li>• Reports regularly to the Board about Audit Committee activities,</li> </ul>	
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						<p>issues and related recommendations</p> <ul style="list-style-type: none"> <li>• Provides open avenue of communication between internal audit, the external auditors, and the Board</li> <li>• Provides reports required by SEC to be included in the Company's annual report, including approval of other audit services</li> <li>• Reviews any other reports the Company issues that relate to Audit Committee responsibilities</li> <li>• Reviews a report of the Compliance Officer, if any, concerning employee and director conflicts of interest/compliance with the Company's conflict of</li> </ul>	
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						<p>interest program; and receives updates, as appropriate</p> <p>VII. Other Responsibilities</p> <ul style="list-style-type: none"> <li>• Institutes and oversees special investigations as needed</li> <li>• Confirms annually that all responsibilities outlined in the charter have been carried out</li> <li>• Conducts annual evaluation of the Audit Committee's performance and reports the results to the Board</li> <li>• Assesses the adequacy of its charter annually or as conditions dictate</li> <li>• Undergoes continuous training and education needed for the effective performance of assigned responsibilities</li> </ul>	
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						<ul style="list-style-type: none"> <li>Performs other activities related to the charter of the committee as requested by the Board without interference or censorship by Management</li> </ul>	
Nomination	<p>1 (in 2012)</p> <hr/> <p>1 (in 2013)</p> <hr/> <p>0 (in 2014)</p>	<p>1 (in 2012)</p> <hr/> <p>1 (in 2013)</p> <hr/> <p>2 (in 2014)</p>	<p>1 (in 2012)</p> <hr/> <p>1 (in 2013)</p> <hr/> <p>1 (in 2014)</p>	Without (until May 6, 2013)	Under the CG Manual, the Nomination Committee has functions of (i) pre-screening and shortlisting candidates to become members of the Board and other appointments that require Board approval; (ii) in consultation with the appropriate executive or Management committee/s and with the supervision of the Board, redefining the role, duties and responsibilities of the CEO; and (iii) assessing the effectiveness of the Board's processes and procedures in the election or replacement of directors.	Under the CG Manual and the Nomination Charter, the Nomination Committee is responsible for reviewing the qualifications and the disqualifications of candidates nominated to become directors or officers. Under the CG Manual, It is also tasked to redefine the role, duties and responsibilities of the CEO and review the process for the election or replacement of directors.	It has the power to disqualify a candidate for election as director or officer who does not possess any of the required qualifications for election as such or who possesses any of the disqualifications.



Remuneration	2 (in 2012)	2 (in 2012)	1 (in 2012)	Without (until May 6, 2013)	Under the CG Manual, the Compensation Committee has the function of considering and approving (i) salary structures and modifications thereto for individuals in the positions of Vice President, or its equivalent, and above; (ii) promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions; and (iii) other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans.	Under the CG Manual and the Compensation Committee Charter, the Compensation Committee is tasked to consider and approve the salary structures for the positions of Vice President, or its equivalent, and above, the promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions and other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans.	The Remuneration Committee has the power to fix salary structures of relevant officers, set compensation polices and propose the promotion of officers.
	2 (in 2013)	2 (in 2013)	1 (in 2013)				
	2 (in 2014)	2 (in 2014)	1 (in 2014)			Under the Compensation Committee Charter, the Compensation Committee further ensures that the Company's annual reports, information and proxy statements clearly, concisely and understandably	

					disclose the compensation of its executive officers as required by applicable laws or rules and regulations.	
Governance	newly created at the board meeting held on July 3, 2014 with members comprised of 2 non-executive directors and chaired by an independent director	Under the CG Manual, the Governance Committee shall have the following functions:  (i) assisting the Board 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  (ii) overseeing the adoption and implementation of systems or mechanisms for the assessment and improvement of the performance of the Board, the Directors and the Board Committees, and the evaluation of the compliance by the Company with the CG Manual.	Under the CG Manual, the Governance Committee has the responsibility of promoting and furthering the corporate governance of the Company.	Pursuant to the provisions of the CG Manual, the Governance Committee has the power to pursue the development, implementation and review of the corporate governance policies, structures and systems of the Company.		

**Committee Members** (updated pursuant to the SEC Form 17-C of the Company dated May 21, 2014 and July 3, 2014)

**(a) Executive Committee\***

**2014**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)**
Chairman	Ramon S. Ang	February 27, 2009	4	4	100	4.84
Member (ED)	Lubin B. Nepomuceno	February 19, 2013	4	4	100	1.86
Member (NED)	Aurora T. Calderon	May 20, 2014	5 (during her term)	5 (during her term)	100	0.62
Member (NED)	Roberto V. Ongpin	July 31, 2008	5 (during his term)	2 (during his term)	40	5.42
Alternate Member (NED)	Eric O. Recto	May 21, 2013	4	N/A	N/A	1.61 (as alternate director)
Alternate Member (NED)	Virgilio S. Jacinto	May 20, 2014	4	N/A	N/A	0.62

**2013**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)***
Chairman	Ramon S. Ang	February 27, 2009	4	4	100	3.84
Member (ED)	Lubin B. Nepomuceno****	February 19, 2013	4	4	100	0.86
Member (NED)	Aurora T. Calderon*	May 20, 2014	newly elected			
Alternate Member (NED)	Eric O. Recto****	May 21, 2013	4	N/A	N/A	0.61 (as alternate director)
Alternate Member (NED)	Virgilio S. Jacinto*	May 20, 2014	newly elected			

**2012**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)****
Chairman	Ramon S. Ang	February 27, 2009	10	10	100	3.84
Member (ED)	Eric O. Recto*****	November 7, 2008	10	10	100	4.15
Member (NED)	Roberto V. Ongpin	May 12, 2009	10	10	100	3.64

\* At the organizational meeting held on May 21, 2013, the following were elected as members of the Executive Committee: Mr. Ramon S. Ang, Mr. Lubin B. Nepomuceno and Mr. Roberto V. Ongpin and as alternate members: Ms. Aurora T. Calderon and Mr. Eric O. Recto, as disclosed to the SEC through an SEC Form 17-C filed on May 22, 2013. At the organizational meeting held on May 20, 2014, the following were elected as members of the Executive Committee: Mr. Ramon S. Ang, Mr. Lubin B. Nepomuceno and Ms. Aurora T. Calderon and as alternate members: Mr. Eric O. Recto and Atty. Virgilio S. Jacinto, as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014.

\*\* Reckoned until December 31, 2014

\*\*\* Reckoned until December 31, 2013

\*\*\*\* Reckoned until December 31, 2012

\*\*\*\*\* Mr. Eric O. Recto was replaced by Mr. Lubin B. Nepomuceno as a member of the Executive Committee on February 19, 2013 as disclosed to the SEC through an SEC Form 17-C filed on February 20, 2013.

**(b) Audit Committee\***

**2014**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)**
Chairman (ID)	Reynaldo G. David	May 12, 2009	5	5	100	5.64
Member (NED)	Estelito P. Mendoza	February 27, 2009	3	5	60	5.84
Member (NED)	Aurora T. Calderon	July 12, 2010	5	5	100	4.47
Member (NED)	Lubin B. Nepomuceno	May 21, 2013	5	5	100	1.61
Member (ID)	Artemio V. Panganiban	December 1, 2010	5	5	100	4.08

**2013**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)***
Chairman (ID)	Reynaldo G. David	May 12, 2009	4	4	100	4.64
Member (NED)	Estelito P. Mendoza	February 27, 2009	4	4	100	4.84
Member (NED)	Aurora T. Calderon	July 12, 2010	4	4	100	3.47
Member (NED)	Lubin B. Nepomuceno*	May 21, 2013	4	3 (during his term)	100 (during his term)	0.61
Member (ID)	Artemio V. Panganiban	December 1, 2010	4	4	100	3.08
Member (NED)	Ferdinand K. Constantino*****	July 12, 2010	4	0	N/A (no meeting held during his term)	2.61 (until the end of his term)

**2012**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)****
Chairman (ID)	Reynaldo G. David	May 12, 2009	4	4	100	3.64
Member (NED)	Estelito P. Mendoza	February 27, 2009	4	4	100	3.84

Member (NED)	Aurora T. Calderon	July 12, 2010	4	4	100	2.47
Member (NED)	Ferdinand K. Constantino****	July 12, 2010	4	4	100	2.47
Member (ID)	Artemio V. Panganiban	December 1, 2010	4	4	100	2.08

\* At the organizational meeting held on May 21, 2013, the following were elected as members of the Audit Committee: Mr. Reynaldo G. David, Atty. Estelito P. Mendoza, Mr. Lubin B. Nepomuceno, Mr. Artemio V. Panganiban and Ms. Aurora T. Calderon, and as advisor: Mr. Ferdinand K. Constantino, as disclosed to the SEC through an SEC Form 17-C filed on May 22, 2013. At the organizational meeting held on May 20, 2014, the following were re-elected as members of the Audit Committee: Mr. Reynaldo G. David, Atty. Estelito P. Mendoza, Mr. Lubin B. Nepomuceno, Chief Justice Artemio V. Panganiban and Ms. Aurora T. Calderon, and as advisor: Mr. Ferdinand K. Constantino, as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014.

\*\* Reckoned until December 31, 2014

\*\*\* Reckoned until December 31, 2013

\*\*\*\* Reckoned until December 31, 2012

\*\*\*\*\* Mr. Ferdinand K. Constantino resigned as a member of, and was appointed as an advisor of, the Audit Committee on February 19, 2013 as disclosed to the SEC through an SEC Form 17-C on February 20, 2013.

**Disclose the profile or qualifications of the Audit Committee members (updated pursuant to the advisement letter filed by the Company with the SEC on April 7, 2014 and another advisement letter dated June 17, 2014)**

#### Chairman

**Reynaldo G. David**, Filipino, born 1942, has served as an Independent Director of the Company since May 12, 2009. He is also the Chairman of the Nomination Committee and 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 TOYM 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 Liberal Arts degree in Commerce 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.

#### Members

**Lubin B. Nepomuceno**, Filipino, born 1951, has served as the President of the Company since February 19, 2013. He is also a member of the Company's Executive Committee, Audit Committee and Compensation Committee. He holds the following positions, among others: President of PMC; Director of PMRMB, PFISB, POMSB, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd.; Trustee of PFI; Director of San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc.; Independent Director of MNHPI and President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel Group. He started with San Miguel Corporation ("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 from September 2009 to February 2013. 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.

**Estelito P. Mendoza**, Filipino, born 1930, has served as a Director of the Company since January 8, 2009. He is also a member of the Nomination Committee. He holds the following positions, among others: Head of Estelito P. Mendoza and Associates; and Director of SMC and Philippine National Bank ("PNB"). Mr. Mendoza was formerly the Philippine Solicitor General (1972-1986), Philippine Minister of Justice (1984-1986), Member of the Philippine Batasang Pambansa (1984-1986) and Governor of Pampanga Province (1980-1986). He also served as the Chairman of Dutch Boy Philippines, Inc., Alcorn Petroleum and Minerals Corporation, the Sixth (Legal) Committee, 31<sup>st</sup> 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, and a Director of East West Bank. He was also a Professional Lecturer of law at the University of the Philippines. Atty. Mendoza took his pre-law course and Bachelor of Laws degree at the University of the Philippines. He also holds a Master of Laws degree from the Harvard Law School.

**Aurora T. Calderon**, Filipino, born 1954, has served as a Director of the Company since August 13, 2010. She is also a member of the Executive Committee and the Compensation Committee. She holds the following positions, among others: Director and Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of Petron Malaysia Refining & Marketing Bhd, Petron Oil & Gas Mauritius Ltd., Petron Oil & Gas International Sdn Bhd, Petron Marketing Corporation, Petron Freeport Corporation, SEA Refinery Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, 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 Treasurer of Top Frontier Investment Holdings Inc. She has served as a Director of Manila Electric Company ("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.

**Artemio V. Panganiban**, Filipino, born 1936, has served as an Independent Director of the Company since October 21, 2010. He holds the following positions, among others: Independent Director of MERALCO, Bank of the Philippine Islands, First Philippine Holdings Corp., Metro Pacific Investment Corp., Metro Pacific Tollways Corp., Robinsons Land Corp., GMA Network, Inc., GMA Holdings, Inc. and Asian Terminals, Inc.; Director of Jollibee Foods Corporation; columnist for the Philippine Daily Inquirer; and officer, adviser or consultant to several business, civic, educational and religious organizations. Mr. Panganiban was formerly the Chief Justice of the Philippine Supreme Court (2005-2006); Associate Justice of the Philippine 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 Convent and San Sebastian College (1961-1970). He is an author of several books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21<sup>st</sup> Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. 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.

**Describe the Audit Committee’s responsibility relative to the external auditor.**

Under the CG Manual and its charter, the Audit Committee exercises oversight responsibility over the annual independent audit of the Company’s financial statements, the engagement of the independent auditors and the evaluation of the external auditors’ qualifications, independence and performance. The Audit Committee, thus, selects and recommends the appointment or replacement of the external auditors to the Board, approves all auditing and non-audit services to be provided by and all fees to be paid to the external auditors, resolves any disagreements between Management and the auditor regarding financial reporting and meets with the external auditors, as necessary. In the determination of the qualification of the external auditor, the Audit Committee also ensures that the signing partner of the external auditor assigned to the Company is changed or rotated every five (5) years or as required under applicable laws and regulations.

**(c) Nomination Committee\***

**2014**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)**
Chairman (ID)	Reynaldo G. David	May 12, 2009	3	3	100	5.64
Member (NED)	Estelito P. Mendoza	February 27, 2009	3	2	67	5.84
Member (NED)	Atty. Virgilio S. Jacinto	May 21, 2013	3	3	100	1.61

**2013**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)***
Chairman (ID)	Reynaldo G. David	May 12, 2009	4	4	100	4.64
Member (ED)	Eric O. Recto****	July 31, 2008	4	1	100 (during his term)	4.56 (until the end of his term)
Member (NED)	Estelito P. Mendoza	February 27, 2009	4	3	75	4.84
Member (NED)	Atty. Virgilio S. Jacinto	May 21, 2013	4	1	100 (during his term)	0.61

**2012**

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)*****
Chairman (ID)	Reynaldo G. David	May 12, 2009	2	2	100	3.64
Member (ED)	Eric O. Recto	July 31, 2008	2	2	100	4.42
Member (NED)	Estelito P. Mendoza	February 27, 2009	2	2	100	3.84

\* At the organizational meeting held on May 21, 2013, the following were elected as members of the Nominations Committee: Mr. Reynaldo G. David, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as disclosed to the SEC through an SEC Form 17-C filed on May 22, 2013. At the organizational meeting held on May 20, 2014, the following were re-elected as members of the Nominations Committee: Mr. Reynaldo G. David, Atty. Estelito P. Mendoza, and Atty. Virgilio S. Jacinto as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014.

\*\* Reckoned until December 31, 2014

\*\*\* Reckoned until December 31, 2013

\*\*\*\* Mr. Eric O. Recto resigned as a member of the Nomination Committee on February 19, 2013 as disclosed to the SEC through an SEC Form 17-C filed on February 20, 2013.

\*\*\*\*\* Reckoned until December 31, 2012

#### (d) Remuneration Committee\*

##### 2014

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)**
Chairman	Ramon S. Ang (non-voting)	February 27, 2009	0	0	0	5.84
Member (ED)	Lubin B. Nepomuceno	February 20, 2013	0	0	0	1.87
Member (NED)	Aurora T. Calderon	July 12, 2010	0	0	0	3.47
Member (NED)	Virgilio S. Jacinto	May 20, 2014	0	0	0	0.62
Member (ID)	Reynaldo G. David	May 12, 2009	0	0	0	4.64

##### 2013

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)***
Chairman	Ramon S. Ang (non-voting)	February 27, 2009	0	0	0	4.84
Member (ED)	Lubin B. Nepomuceno	February 20, 2013	0	0	0	0.87%
Member (ED)	Eric O. Recto (non-voting) ****	July 31, 2008	0	0	0	4.56 (until the end of his term)
Member (NED)	Aurora T. Calderon	July 12, 2010	0	0	0	2.47
Member (ID)	Reynaldo G. David	May 12, 2009	0	0	0	3.64

##### 2012

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (in years)*****
Chairman	Ramon S. Ang (non-voting)	February 27, 2009	0	0	0	3.84
Member (ED)	Eric O. Recto (non-voting)****	July 31, 2008	0	0	0	4.42
Member (NED)	Roberto V. Ongpin	May 12, 2009	0	0	0	3.64
Member (NED)	Aurora T. Calderon	July 12, 2010	0	0	0	2.47
Member (ID)	Reynaldo G. David	May 12, 2009	0	0	0	3.64



- \* At the organizational meeting held on May 21, 2013, the following were elected as members of the Remuneration Committee: Mr. Ramon S. Ang, Mr. Lubin B. Nepomuceno, Mr. Roberto V. Ongpin, Mr. Reynaldo G. David, and Ms. Aurora T. Calderon, and as advisor: Mr. Ferdinand K. Constantino as disclosed to the SEC through an SEC Form 17-C filed on May 22, 2013. At the organizational meeting held on May 20, 2014, the following were elected as members of the Remuneration Committee: Mr. Ramon S. Ang, Mr. Lubin B. Nepomuceno, Mr. Reynaldo G. David, Atty. Virgilio S. Jacinto, and Ms. Aurora T. Calderon, and as advisor: Mr. Ferdinand K. Constantino as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014.
- \*\* Reckoned until December 31, 2014
- \*\*\* Reckoned until December 31, 2013
- \*\*\*\* Mr. Eric O. Recto resigned as a member of the Remuneration Committee on February 19, 2013 as disclosed to the SEC through an SEC Form 17-C filed on February 20, 2013.
- \*\*\*\*\* Reckoned until December 31, 2012

**(e) Governance Committee**

On July, 3 2014, the Board approved the creation of the Governance Committee.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Margarito B. Teves	July 3, 2014	N/A: newly created board committee			
Member (NED)	Virgilio S. Jacinto	July 3, 2014	N/A: newly created board committee			
Member (NED)	Nelly Favis-Villafuerte	July 3, 2014	N/A: newly created board committee			

**2) Changes in Committee Members**

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

There was no change in committee membership in 2012.

Name of Committee	Name	Reason
Executive	N/A	
Audit	N/A	
Nomination	N/A	
Remuneration	N/A	
Others (specify)	N/A	

The following were the changes in committee membership in 2013 as disclosed to the SEC through SEC Form 17-Cs filed on February 20, 2013 and May 22, 2013:

Name of Committee	Name	Reason
Executive	Appointment as member: Lubin B. Nepomuceno	To replace Eric O. Recto upon his resignation
	Appointment as alternate member: Eric O. Recto	To fill in vacant position
	Appointment as alternate member: Aurora T. Calderon	To fill in vacant position
Audit	Appointment as member: Lubin B. Nepomuceno	To replace Ferdinand K. Constantino upon his resignation
Nomination	Appointment as member: Virgilio S. Jacinto	To replace Eric O. Recto upon his resignation

Remuneration	Appointment as member: Lubin B. Nepomuceno	To replace Eric O. Recto upon his resignation
Others (specify)	N/A	

The following are the changes in committee membership as of May 20, 2014 as disclosed to the SEC through an SEC Form 17-C filed on May 21, 2014:

Name of Committee	Name	Reason
Executive	Appointment as member: Aurora T. Calderon	To fill in vacant position arising from the expiration of the term of Roberto V. Ongpin as director
	Appointment as alternate member: Virgilio S. Jacinto	To fill in vacant position arising from the appointment of Aurora T. Calderon as regular member of the committee
Audit	N/A	
Nomination	N/A	
Remuneration	Appointment as member: Virgilio S. Jacinto	To fill in vacant position arising from the expiration of the term of Roberto V. Ongpin as director
Others (specify)	N/A	

### 3) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	<p>The Executive Committee had 10 meetings in 2012 and approved corporate actions requiring board approval in between sessions of the Board.</p> <p>The Executive Committee had four (4) meetings in 2013 and approved corporate actions requiring board approval in between sessions of the Board.</p> <p>The Executive Committee had 10 meetings in 2014 and approved corporate actions requiring board approval in between sessions of the Board.</p>	The Executive Committee reviewed and assessed, and approved, if thought fit, proposed corporate actions requiring board approval in between sessions of the Board.
Audit	The Audit Committee had five (5) meetings in 2012.	There were no significant issues noted that had a material effect on the Company's financial statements and its operations. The work reported to have been done by the

	<p>As reported in the Information Statement for the 2013 annual stockholders' meeting and the annual report (SEC Form 17-A) for 2012, the Audit Committee accomplished the following in 2012: (i) review of the quarterly and annual financial statements of the Company and endorsement of the same for Board approval, (ii) endorsement of Manabat San Agustin &amp; Co., CPAs as the Company's external auditor for 2012, (iii) review with Manabat San Agustin &amp; Co., CPAs of the scope and timing of their annual audit plan, audit methodology and focus areas in relation to their review of the financial statements, (iv) review with Manabat San Agustin &amp; Co., CPAs the audit observations and recommendations of the Company's internal audit controls and Management's response to issues raised, (v) review with the Internal Audit Head and approval of the annual internal audit plan; and (vi) reviewed on a quarterly basis the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period.</p> <p>The Audit Committee had four (4) meetings in 2013.</p> <p>As reported in the Information Statement for the 2014 annual stockholders' meeting and the annual report (SEC Form 17-A) for 2013, the Audit Committee accomplished the following in 2013: (i) review of the quarterly and annual financial statements of the Company and endorsement of the same for Board approval, (ii) endorsement of Manabat San Agustin &amp; Co., CPAs (as the Company's external auditor for 2013, (iii) review with Manabat San Agustin &amp; Co., CPAs of the scope and</p>	<p>Audit Committee was in compliance with the scope of its mandate.</p>
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	<p>timing of their annual audit plan, audit methodology and focus areas in relation to their review of the financial statements, (iv) review with Manabat San Agustin &amp; Co., CPAs the audit observations and recommendations of the Company's internal audit controls and Management's response to issues raised, (v) review with the Internal Audit Head and approval of the annual internal audit plan; and (vi) review on a quarterly basis of the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period; and (vii) review and approval of the provision by the Internal Audit Department of audit services to Petron Malaysia.</p> <p>The Audit Committee had five (5) meetings in 2014.</p>	
Nomination	<p>The Nomination Committee held two (2) meetings in 2012. The meetings were held to pre-screen and short-list candidates for the election of the directors and the appointment of officers of the Company.</p> <p>The Nomination Committee also held four (4) meetings in 2013 to pre-screen and short-list candidates for the election of the directors and the appointment of officers of the Company.</p> <p>The Nomination Committee also held three (3) meetings in 2014 to pre-screen and short-list candidates for the election of the directors and the appointment of officers of the Company.</p>	No particular work was needed to be done by the Nomination Committee to address any significant issue that required resolution. The work done by the Nomination Committee was in pursuance of its regular functions of qualifying nominees to be elected as directors and/or officers of the Company.
Remuneration	The Compensation Committee did not hold any meeting in 2012, 2013 and 2014.	No particular work was needed to be done by the Remuneration Committee to address any significant issue that required resolution.
Governance	The Governance Committee was newly created on July 3, 2014 and	No particular work was needed to be done by the Governance Committee

	did not hold any meeting in 2014.	to address any significant issue that required resolution.
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**4) Committee Program** (updated pursuant to the SEC Form 17-C of the Company dated July 3, 2014)

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Continued availability to approve corporate actions requiring board action in between sessions of the Board	This will ensure that the necessary corporate approvals are timely obtained to pursue transactions requiring such approvals during the period in between sessions of the Board.
Audit	<ol style="list-style-type: none"> <li>Review of manpower complement of terminal and depots.</li> <li>Operations' Back-to-Basics Program for the continuous review of the depot/terminal's processes and procedures</li> <li>Continuous communication of Company's Policy on Internal Control.</li> </ol>	<ol style="list-style-type: none"> <li>This program will address the recurring minor audit findings by determining and putting the right number and skill sets of personnel manning these facilities.</li> <li>The objective of this program is to ensure adequate controls and standardize and update systems and procedure vital to the accomplishment of the depots/terminals' business objectives.</li> <li>This is intended to continuously educate the employees on the importance of internal control systems and procedures for the attainment of their respective business objectives.</li> </ol>
Nomination	Adopt the Nomination Committee Charter	<p>This charter will set out the roles, responsibilities, and authority of the Nomination Committee, including the rules of procedures that will guide the function of the committee.</p> <p>(The Nomination Committee Charter was adopted by the Board on May 6, 2013 as disclosed to the SEC through an SEC Form 17-C filed on May 9, 2013).</p>
Remuneration	Adopt the Compensation Committee Charter	This charter will set out the roles, responsibilities, and authority of the Compensation Committee, including the rules of procedures that will

		guide the function of the committee.  (The Compensation Committee Charter was adopted by the Board on May 6, 2013 as disclosed to the SEC through an SEC Form 17-C filed on May 9, 2013).
Governance	Adopt the Governance Committee Charter (this committee was newly created on July 3, 2014)	This charter will set out the roles, responsibilities, and authority of the Governance Committee, including the rules of procedures that will guide the function of the committee.

#### D. RISK MANAGEMENT SYSTEM

##### 1) Disclose the following:

###### (a) Overall risk management philosophy of the company;

Under the Corporate Policy Manual, Management recognizes that the Company faces risks that have consequential losses. For this reason, the Company has adopted the policy of having a risk management program consistent with its corporate objectives as well as its financial resources. As disclosed in the Definitive Information Statement and the annual report (SEC Form 17-A), 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 and subsidiaries 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. Petron Singapore Trading Pte. Ltd. executes the hedging transactions involving crude and product imports on behalf of the Company.

###### (b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The regular assessment by each division of its risk profile and its formulation of action plans for managing identified risks are eventually reported to the Management Committee which, in turn, brings the same for the approval by the Board through the presentation and approval of the annual business plan.

The Audit Committee of the Board, in its audit report for each year, states whether it has conducted a review of the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment of the Company. The Audit Committee issued its audit report for 2012 and 2013, a copy of each of which appears in (i) the 2012 annual report (SEC Form 17-A) and the Definitive Information Statement for

the 2013 annual stockholders' meeting and (ii) the 2013 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2014 annual stockholders' meeting, respectively, which states that the committee has reviewed on a quarterly basis the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period.

**(c) Period covered by the review;**

The years covered are 2012 and 2013.

**(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and**

The Audit Committee of the Board, in its audit report for each year, states whether it has conducted a review of the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment of the Company. The Audit Committee issued its audit reports for 2012 and 2013, a copy of each which appears in (i) the 2012 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2013 annual stockholders' meeting and (ii) the 2013 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2014 annual stockholders' meeting, respectively, which states that the committee has reviewed on a quarterly basis the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period.

**(e) Where no review was conducted during the year, an explanation why not.**

Not applicable.

**2) Risk Policy**

**(a) Company**

**Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:**

The major risks of the Company are set out in the Definitive Information Statement and the SEC Form 17-A of the Company. The list below does not represent a ranking in the order of priority but covers the risks identified by the Company using a matrix of risks measurement based on probability and quantified amount (in Php) of possible adverse effect on its finances.

Risk Exposure	Risk Management Policy	Objective
Foreign exchange risk	1. Hedging of dollar-denominated liabilities using forwards and other derivative instruments and generation of dollar-denominated sales; currency hedging, by policy, is limited to the extent of 100% of the underlying exposure.  2. Daily recording of dollar-denominated assets and liabilities and the resulting potential foreign exchange	1. Hedging allows the Company to manage its currency exposure.  2. The monitoring of foreign exchange risk allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such

	losses through software that monitors financial transactions under the Company's enterprise resource planning system	software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.
Risk of operational disruptions	Implementation of a corporate-wide health, safety and environment ("HSE") program and effective maintenance practices and the inculcation of a culture of continuous process improvement	The HSE program involves extensive employee training and management and monitoring systems that help achieve a dual purpose: (i) for the employees and other stakeholders, a safe environment and (ii) for the Company, substantive manhours without lost time accident.
Profit margin and cash flow risk	Use of (i) margin hedging strategies for some US dollar-based contracts, (ii) long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive, and (iii) a cash flow projection software	The policy allows the Company to eliminate the risk of profit margin compression due to changes in crude and product prices with a margin hedge simultaneously fixing the future dollar prices of Dubai crude oil and that of a selected product (contracted to be sold at the future date) manufactured from the crude. Long-term sales contracts provide a partial hedge on future cash flow uncertainty. The cash flow projection software enables the Company to proactively respond to potential future cash flow imbalances and maintain access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.
Regulatory risk	Compliance with applicable laws and regulations and active involvement in stakeholder consultation with government regulatory agencies and relevant stakeholder groups	Compliance with applicable law and regulation ensures that no legal actions are filed against, and no substantive fines or non-monetary sanctions are imposed on, the Company.  Working closely with stakeholders in the oil and energy industry helps facilitate the mutual understanding of laws and the development of strategic initiatives for the oil and energy sector that, in turn, result in the twin goals of industry leadership and nation-building.



**(b) Group**

**Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:**

The major risks of the Company and its group are set out in the Definitive Information Statement and the SEC Form 17-A of the Company. The list below does not represent a ranking in the order of priority but covers the risks identified by the Company using a matrix of risks measurement based on probability and quantified amount (in Php) of possible adverse effect on its finances.

<b>Risk Exposure</b>	<b>Risk Management Policy</b>	<b>Objective</b>
Foreign exchange risk	<ol style="list-style-type: none"><li>1. Hedging of dollar-denominated liabilities using forwards and other derivative instruments and generation of dollar-denominated sales; currency hedging, by policy, is limited to the extent of 100% of the underlying exposure.</li><li>2. Daily recording of dollar-denominated assets and liabilities and the resulting potential foreign exchange losses through software that monitors financial transactions under the Company's enterprise resource planning system</li></ol>	<ol style="list-style-type: none"><li>1. Hedging allows the Company to manage its currency exposure.</li><li>2. The monitoring of foreign exchange risk 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.</li></ol>
Risk of operational disruptions	Implementation of a corporate-wide HSE program and effective maintenance practices and the inculcation of a culture of continuous process improvement	The HSE program involves extensive employee training and management and monitoring systems that help achieve a dual purpose: (i) for the employees and other stakeholders, a safe environment and (ii) for the Company, substantive manhours without lost time accident.
Profit margin and cash flow risk	Use of (i) margin hedging strategies for some US dollar-based contracts, (ii) long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive, and (iii) a cash flow projection software	The policy allows the Company to eliminate the risk of profit margin compression due to changes in crude and product prices with a margin hedge simultaneously fixing the future dollar prices of Dubai crude oil and that of a selected product (contracted to be sold at the future date) manufactured from the crude. Long-term sales contracts provide a partial hedge on future cash flow uncertainty. The cash flow projection

		software enables the Company to proactively respond to potential future cash flow imbalances and maintain access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.
Regulatory risk	Compliance with applicable laws and regulations and active involvement in stakeholder consultation with government regulatory agencies and relevant stakeholder groups	Compliance with applicable law and regulation ensures that no legal actions are filed against, and no substantive fines or non-monetary sanctions are imposed on, the Company.  Working closely with stakeholders in the oil and energy industry helps facilitate the mutual understanding of laws and the development of strategic initiatives for the oil and energy sector that, in turn, result in the twin goals of industry leadership and nation-building.

**(c) Minority Shareholders**

Indicate the principal risk of the exercise of controlling shareholders' voting power.

<b>Risk to Minority Shareholders</b>
Inherent in the one-share-one-vote policy set out in Philippine laws is the risk that minority stockholders may generally be unable to prevent the approval of any resolution requiring stockholders' approval that is proposed and voted in the affirmative by the majority stockholders.

**3) Control System Set Up**

**(a) Company**

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
Key risks	Bottom up approach with each division conducting a regular self-assessment of its risk profile	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 of

		<p>Directors through the Company's annual business planning process.</p> <p>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 &amp; 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. Petron Singapore Trading Pte Ltd executes the hedging transactions involving crude and product imports on behalf of the Company.</p>
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**(b) Group**

**Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:**

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
Key risks	Bottom up approach with each division conducting a regular self-assessment of its risk profile	<p>Petron follows an enterprise-wide risk management framework for identifying, mapping and addressing the risk factors that affect or may affect its businesses.</p> <p>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 of Directors through the Company's annual</p>

		<p>business planning process.</p> <p>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 &amp; 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. Petron Singapore Trading Pte Ltd executes the hedging transactions involving crude and product imports on behalf of the Company.</p>
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**(c) Committee**

**Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:**

<b>Committee/Unit</b>	<b>Control Mechanism</b>	<b>Details of its Functions</b>
Board of Directors	Review of the annual business plan and the effectiveness of the Company's internal control system	Reviews and evaluates the annual plan of the Company, which includes the report of the Management Committee on the risk profile of the Company and the proposed action plans; through the Audit Committee, considers the effectiveness of the Company's internal control system
Management Committee	Review of the report of the Risk and Insurance Management Group	Presents to the Board the risk profile of the Company and recommends action plans for managing identified risks

Internal Audit	Provision of independent evaluation	Undertakes independent regular audit reviews of the Company's internal control system to provide reasonable assurance that such systems are operating effectively
Corporate units and subsidiaries with special duties (Risk and Insurance Management Group, Financial Risk Management Unit of the Treasurers Department, Corporate Technical & Engineering Services Group and Petron Singapore Trading Pte. Ltd.)	Provision of technical assistance and coordination and	<ul style="list-style-type: none"> <li>• The Risk and Insurance Management Group provides the overall coordination and development of the enterprise-wide risk management process.</li> <li>• The Financial Risk Management Unit of the Treasurers Department is in charge of foreign exchange hedging transactions.</li> <li>• The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions.</li> <li>• The Corporate Technical &amp; Engineering Services Group oversees compliance with the domestic and international standards set for health, safety and environment.</li> <li>• Petron Singapore Trading Pte Ltd. executes hedging transactions involving crude and product imports on behalf of the Company.</li> </ul>
Each division as risk owner	Self-assessment	Conducts a regular assessment of its risk profile and formulates action plans for managing identified risks

## **E. INTERNAL AUDIT AND CONTROL**

### **1) Internal Control System**

**Disclose the following information pertaining to the internal control system of the company:**

**(a) Explain how the internal control system is defined for the company;**

Petron is committed to ensuring the highest standard of corporate governance in its conduct of its business affairs and activities in pursuit of its goals and objectives. The Board and Management consider this as a vital part of its responsibilities and commitments to safeguard and enhance stakeholders' value.

To live up with this commitment, the Company, through its Board and Management, has developed a comprehensive internal control system designed not only to ensure efficient and effective management of its activities, so as to meet the organization's objectives, but also to create and support a strong system of corporate governance. This internal control system has strong management support, including the involvement of the Board and the Audit Committee, and is designed to manage the risks to which the Company is exposed to.

The internal control system of the Company encompasses the formulation of Company's vision and mission, objectives, strategic directions and thrusts, plans and programs, policies/guidelines/procedures, and management systems. The policies are the Code of Conduct and Ethical Policy Manual, which is considered as the foundation policy, the Corporate Policy Manual, the Good Governance Policy Manual, the Integrated Management Policy Manual, and the ISO Policy on Health, Safety & Environment Manual. A clear organizational structure with well defined duties and responsibilities, clear lines of accountability and delegation of authority for each level is part of the manuals. These series of policies, procedures and management systems are communicated to the Company's employees, contractors, vendors, customers and other concerned stakeholders, so that each has a clear understanding of the Company's expectations. Each component of the internal control system is designed to achieve high standards of performance in the areas of safety, operations, financial results, internal control, risk management, good governance, internal and external legal and environmental regulatory compliance, and corporate social responsibility.

The Board and the Audit Committee ensure that these policies and management systems are updated and fully implemented and consistently enforced. They are supported by the Management team, various internal committees and the Internal Audit Department.

The Internal Audit Department undertakes independent regular audit reviews of the Company's internal control system to provide reasonable assurance that such systems are operating effectively. The internal audit process involves the audit of the all Company's facilities, core processes, and operations, and quarterly review with the Audit Committee of the audit results and status of the audit plan as well as the audit plan for the subsequent year. The internal audit group reports functionally to the Audit Committee. This structure provides independence for the internal audit group in carrying its audit function. The Corporate Technical and Engineering Services Group performs periodic technical and/or compliance audits on safety, health and environment, among others.

Weekly and monthly meetings are held at various levels of the organization (Management team meetings with the CEO and the President, Vice Presidents' meetings, managers' meetings and staff meetings) as part of the Company's monitoring system to ensure the each unit's respective business objectives are controlled and achieved.

**(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;**

The Audit Committee of the Board, in its audit report for each year, states whether it has conducted a review of the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment of the Company. The Audit Committee issued its audit report for 2012 and 2013, a copy of each of which appears in (i) the 2012 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2013 annual stockholders' meeting and (ii) the 2013 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2014 annual stockholders' meeting, respectively, which states that the committee has reviewed on a quarterly basis the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period.

**(c) Period covered by the review;**

The years covered are 2012 and 2013.

**(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and**

As above explained, the Audit Committee of the Board, in its audit report for each year, states whether it has conducted a review of the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment of the Company. The Audit Committee issued its audit report for 2012 and 2013, a copy of each of which appears in (i) the 2012 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2013 annual stockholders' meeting and (ii) the 2013 annual report (SEC Form 17-A) and the Definitive Information Statement for the 2014 annual stockholders' meeting, respectively, which states that the committee has reviewed on a quarterly basis the report of the Internal Audit Department on the adequacy and effectiveness of the internal and control environment in the areas covered during the covered period.

**(e) Where no review was conducted during the year, an explanation why not.**

Not applicable.

**2) Internal Audit**

**(a) Role, Scope and Internal Audit Function**

**Give a general description of the role, scope of internal audit work and other details of the internal audit function.**

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
The Internal Audit Department of the Company provides independent, objective assurance	The scope of work of the Internal Audit Department is to assist the Board and Management in	In-house with outsourcing	Audit Head: Ronaldo T. Ferrer	The Internal Audit Department reports functionally to the Audit Committee to ensure and maintain

<p>and consulting services designed to add value and improve the operations of the Company and its subsidiaries, and help the Petron Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.</p>	<p>determining whether the risk management, control, and governance processes within the Petron Group, as designed and represented by Management, are adequate and effective in a manner to ensure that:</p> <ul style="list-style-type: none"> <li>• significant exposures to risks are appropriately identified and adequately managed;</li> <li>• significant financial, managerial, and operating information is accurate, reliable, and timely;</li> <li>• employees' and the Company's actions are in compliance with policies, standards, procedures, and applicable laws and regulations;</li> <li>• resources are acquired economically, used efficiently, and adequately protected;</li> <li>• objectives and goals for operations or programs are achieved; and</li> <li>• effectiveness, efficiency and continuous improvement are promoted in the Company's operating systems and processes.</li> </ul>			<p>the independence of internal audit function.</p> <p>The Internal Audit Department (i) conducts audit activities in accordance with the International Standards for the Professional Practice of Internal Auditing formulated by The Institute of Internal Auditors, (ii) conducts assurance services by evaluating and contributing to the improvement of risk management, internal control and governance systems, (iii) reports the results of review to concerned members of Management who are held responsible for insuring that corrective action is taken within a reasonable period after a deficiency is reported, (iv) reports to the Audit Committee, the Chairman and the President the status of audit activities, major observations and recommendations, and all identified potential conflicts of interest, (v) submits annual audit plans to the Audit Committee and Management for their approval, and (vi) coordinates with the external</p>
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				auditor to ensure adequate audit coverage and to minimize duplicate efforts.
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**(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?**

Yes, all Internal Audit projects to be outsourced are approved by the Audit Committee. Any award to winning service provider/s is endorsed by the Internal Audit Head during the Audit Committee meeting for the members' approval.

**(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?**

Yes, the internal auditor has direct and unfettered access to the Board and the Audit Committee and to all records, properties and personnel of the Company. This is embodied in the CG Manual and the Internal Audit Charter that both require the Audit Committee to perform oversight functions over both the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.

The CG Manual also provides that the Internal Audit Department report functionally to the Audit Committee. Further, the Internal Audit Manager, the Controller and the external auditor are each authorized to report directly to the Audit Committee without interference or censorship by Management as to any and all matters which they believe fall within the jurisdiction or concern of the Audit Committee, including significant accounting, reporting and tax issues and irregularities, control deficiencies, and Management plans for corrective action.

In pursuit of the duties and responsibilities of the Audit Committee in respect of the internal auditor as provided in the Audit Committee Charter, the Audit Committee performed the following activities for the years 2012 and 2013 to ensure the independence of the internal auditor through direct and unfettered access to the Board, as well as to Company records, properties and personnel in the conduct of internal audit function:

- 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;
- endorsed the re-appointment of Manabat Sanagustin/KPMG as the company's independent auditors for 2013;
- reviewed with Manabat Sanagustin/KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- reviewed with Manabat Sanagustin/KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- 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;

- 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
- and for 2013, reviewed and approved the proposal for the Internal Audit to provide the audit service requirements of Petron Malaysia.

**(d) Resignation, Re-assignment and Reasons**

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Ma. Isabel L. Dyangko (with resignation effective August 10, 2012)	Resignation due to migration
Francis F. Bulaun (with resignation effective July 1, 2013)	Resignation due to transfer to another company in the San Miguel Group
Jon Stephen T. Lazol (with resignation effective June 30, 2013)	Resignation to transfer employment
Shella P. Malabanan (with resignation effective November 18, 2013)	Resignation to transfer employment
Rowela B. Lascano (with resignation effective December 31, 2013)	Resignation to start own business

**(e) Progress against Plans, Issues, Findings and Examination Trends**

State the internal audit’s progress against plans, significant issues, significant findings and examination trends.

<b>Progress Against Plans</b>	Completed the 2012 and 2013 projects in the Audit Plan
<b>Issues<sup>7</sup></b>	There were no significant issues noted that had a material effect on the Company's financial statements and its operations.
<b>Findings<sup>8</sup></b>	There were no significant findings noted that had a material effect on the Company's financial statements and its operations. Findings in general though are documented in the 2012 quarterly Internal Audit Report to the Audit Committee
<b>Examination Trends</b>	Generally adequate and effective internal control

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year

<sup>7</sup> “Issues” are compliance matters that arise from adopting different interpretations.

<sup>8</sup> “Findings” are those with concrete basis under the company’s policies and rules.

result and/or year-to-year results;  
6) Conduct of the foregoing procedures on a regular basis.]

**(f) Audit Control Policies and Procedures**

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
Policies and Guidelines on Revenue Cycle	Generally in order
Policies and Guidelines on Procurement Cycle	Generally in order
Policies and Guidelines on Supply Chain – Logistics Cycle	Generally in order

The Internal Control Policy of the Company was formalized and endorsed by the Audit Committee for the signature of the Chairman and President for dissemination to all offices of the Company.

**(g) Mechanism and Safeguards**

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
<p>The Audit Committee, through the functions and powers granted to it under the CG Manual and the Audit Committee Charter, performs oversight functions over the Company's internal and external auditors to ensure that they act independently from each other or from interference of outside parties, and that they are given unrestricted access to all records, properties and personnel necessary in the discharge of their respective audit functions.</p> <p>The Audit Committee reviews and confirms the independence of</p>	<p>The Company obtains the relevant board approvals for the engagement of financial analysts and the Company engages only reputable financial analysts with proven independence and expertise in their field of practice.</p> <p>Financial analysts form part of the public. They are not given non-public information concerning the Company until such information is disclosed by the Company to the public in general. In the event a financial analyst is engaged by the Company for a particular transaction,</p>	<p>The Company obtains the relevant board approvals for the engagement of investment banks and the Company engages only reputable investment banks with proven independence and expertise in their field of practice.</p> <p>Investment banks form part of the public. They are not given non-public information concerning the Company until such information is disclosed by the Company to the public in general. In the event an investment bank is engaged by the Company for a particular transaction,</p>	<p>The Company obtains the relevant board approvals for the engagement of rating agencies and the Company engages only reputable agencies with proven independence and expertise in their field of practice.</p> <p>Rating agencies form part of the public. They are not given non-public information concerning the Company until such information is disclosed by the Company to the public in general. In the event a rating agency is engaged by the Company for a particular transaction,</p>

the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company, including non-audit services, and discusses the relationship with the auditors.	such analyst is obliged to keep the transaction confidential until disclosed by the Company.	such bank is obliged to keep is obliged to keep the transaction confidential until disclosed by the Company.	such agency is obliged to keep is obliged to keep the transaction confidential until disclosed by the Company.
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**(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.**

It is the Compliance Officer of the Company who is mandated under the CG Manual to sign and submit the certification on the compliance with the CG Manual.

#### **F. ROLE OF STAKEHOLDERS**

##### **1) Disclose the company's policy and activities relative to the following:**

	<b>Policy</b>	<b>Activities</b>
Customers' welfare	The Code of Conduct requires that Petron deal openly and honestly with its customers and that Petron is committed to supply goods and services of the highest quality standards backed by efficient after sales service consistent with the requirements of its customers to ensure their total satisfaction. The quality standards are required to at least meet the required national and applicable international standards.	<p>Petron complies with all applicable laws and regulations in connection with the refining and marketing of its products.</p> <p>The Company's continued network expansion ensures the availability of the Company's products even in the most remote areas of the country. The improvement of existing service stations through various engineering and maintenance projects resulted in upgraded facilities. The installation of CCTV cameras in service stations was also commenced in 2012 in Metro Manila for the safety and protection of customers and service station personnel.</p> <p>Through its Research and Development team, the Company ensures the continuous enhancement of its products, services and processes to meet</p>

		<p>the requirements of the industry, delight customers and achieve competitive advantage. The Marketing Department endeavors to ensure the integrity of the Company's brands and the responsible product labeling and advertising of its products.</p> <p>Petron maintains its website and has a hotline number and an email address through which customers can relay their queries and complaints.</p>
<p>Supplier/contractor selection practice</p>	<p><u>Supplier Selection</u></p> <p>It is the policy of the Company, as embodied in the Corporate Policy Manual, that it deal only with licensed, reputable, reliable, competent and responsible suppliers who pass the pre-qualification requirements of the Company and, in order to ensure the availability of economical and superior materials, supplies and equipment, that it preferably deals with producers, manufacturers, exclusive or franchised distributors, direct importers and authorized dealers.</p> <p>The Corporate Policy Manual further requires the Company to give appropriate disciplinary measures to all erring suppliers in order to keep the integrity of the purchasing system and to maintain a pool of competent and dependable accredited suppliers.</p> <p><u>Contractor Selection</u></p> <p>It is the policy of the Company, also as embodied in the Corporate Policy Manual, that it deal only with licensed, reputable, reliable, competent and financially sound contractors who pass the pre-qualification requirements of the Company in order to assure that only the most favorable services are</p>	<p><u>Supplier Selection</u></p> <p>The procedure for soliciting and evaluating offers from suppliers and the award for an order as set out in the Corporate Policy Manual is observed. Negotiations and/or spot crude procurement are alternatively resorted in accordance with the Corporate Policy Manual.</p> <p><u>Contractor Selection</u></p> <p>The Corporate Policy Manual sets the procedure for soliciting and evaluating offers from contractors and the award for the order and the circumstances when negotiations and/or modified bidding may be resorted to. Any activity requiring contractor selection will undergo such procedure.</p>

	<p>secured by the Company.</p> <p>The Corporate Policy Manual also imposes appropriate disciplinary measures to all erring contractors to uphold the integrity of the Company's bidding system and maintain a pool of competent and dependable accredited contractors.</p>	
<p>Environmentally friendly value-chain</p>	<p>It is the Company's policy under its Corporate Policy Manual to promote and implement environmentally sound practices, taking into account government laws and regulations, the community's interest, consumer needs and technological innovations.</p> <p>It is part of the sustainability policy of the Company that sustaining its leadership in the local oil industry also means being at the forefront of sustainable development.</p>	<p>Affirming its commitment to environmental management, Petron established its Environmental Council in 2011 which is tasked to help spread awareness on new environmental regulations and standards and corporate policies.</p> <p>Petron's environmental management is integrated throughout the value chain. The Petron Bataan Refinery is currently implementing and maintaining an Integrated Management System ("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.</p> <p>Depot operations continued their certification in environmental management system in various locations. A total of 32 locations are covered by ISO 9001 certification. Of these locations, a total of 20 have been migrated to the ISO 9001:2008 certification. As of March 2013, 23 locations had been certified to the IMS. Operations' commitment is to have all the depots certified to the IMS by 2015.</p>

		<p>The Company also implemented various programs such as water conservation and greenhouse gas reduction programs. The Company reduced its greenhouse gas emissions by 17% from 2011 mainly due to the Flare Gas Recovery Unit it installed that re-directs waste gases back to the refinery to be used as fuel gas for its operations. And the over-all water consumption of the Company was reduced by over 8% from 2011 through an increased use of recycled water.</p> <p>The Company Head Office also observes a solid waste segregation system.</p>
Community interaction	<p>The Code of Conduct embodies Petron's commitment to be a good corporate citizen not only by complying with all relevant laws and regulations but also by actively assisting in the improvement of the quality of life of the people in the communities in which it operates with the objective of enhancing their quality of life. The Company also encourages volunteerism among its employees.</p> <p>It is part of the sustainability policy of the Company that sustaining its leadership in the local oil industry also means being at the forefront of sustainable development.</p>	<p>In February 2012, Petron was honored by the Management Association of the Philippines with the prestigious Integral CSR Award which recognized Petron's earnest efforts to make social responsibility an integral function of the entire organization manifested in every aspect of its business operations.</p> <p>Petron also received the Special Award for Environment and Sustainable Development for its entry <i>Measuring, Managing and Minimizing Our Environment Footprint in Bataan</i> for the Company's initiatives to preserve and protect the environment and promote sustainable development in the Province of Bataan.</p> <p>In 2013, Petron received from the Public Relations Society of the Philippines Anvil Awards of Excellence for <i>Tulong Aral ng Petron: A Decade of Fueling Hope, Sustainability: Petron's Way of Life</i>, and the Boracay Beach Management Program, as well as Anvil Awards of Merit for <i>Managing our Environmental</i></p>

*Footprint in Bataan* and our 2011 Petron Sustainability Report. Petron also received three (3) Awards of Excellence for *Tulong Aral ng Petron: A Decade of Fueling Hope, Sustainability: Petron's Way of Life*, and the Boracay Beach Management Program. Petron was also recognized with the prestigious Gold Award for Best Environmental Excellence during the fifth Global CSR Awards organized by Singapore-based The Pinnacle Group International.

Petron Foundation, Inc. ("PFI") continued to be at the forefront of Petron's efforts to make a sustainable impact to society and the environment, while at the same time helping the Company attain its business goals.

Among the CSR and sustainability activities of Petron and PFI are the following:

- ***Tulong Aral ng Petron.*** *Tulong Aral ng Petron* ("Tulong Aral") is a long-term, strategic initiative that helps send poor children to school, keep them there and make sure they learn. This is the centerpiece corporate social responsibility ("CSR") program that defines what Petron stands for socially - to FUEL H.O.P.E. (Helping the Filipino children and youth Overcome Poverty through Education). *Tulong Aral* has scholarship programs for elementary, high school and college/vocational students.

At the end of 2012, *Tulong Aral*, in partnership with the Department of Social Welfare and Development ("DSWD"), the Department of Education ("DepEd") and the World



		<p>Vision Development Foundation, had a total of 3,486 scholars enrolled from Grades one to six. In March of 2012, 1,100 <i>Tulong Aral</i> scholars graduated, comprised the fourth batch of children who started the program in 2006. The end of school year 2011-2012 also produced 433 outstanding students, 16 of whom graduated with first honors. A significant majority of the scholars (95.5%) were able to complete their primary education, while the drop-out rate was kept to a mere 4.5%, way below the national average of 8%. At the end of 2013, <i>Tulong Aral ng Petron</i> had a total of 2,687 scholars enrolled from Grades three to six. Seven hundred twenty-one graduated in March 2013. A significant majority of our scholars (98.2%) were able to complete their primary education, while the drop-out rate was kept to a mere 2% way below the national average of 6.38%.</p> <p>In partnership with DepEd, DSWD, and the Land Bank of the Philippines, a total of 372 youths received scholarships to go to high school in 26 public schools in Metro Manila. The program is being implemented for Petron by the Philippine Business for Social Progress.</p> <p>For the school year 2012-2013, Petron sponsored the college education of 24 scholars pursuing different degrees from various academic institutions, the qualified of whom who can eventually earn the opportunity to be employed by Petron.</p>
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A total of 442 children are receiving scholarships to go to high school in 25 public schools in Metro Manila. For the school year 2013-2014, Petron sponsored the college education of 24 scholars pursuing different degrees from various academic institutions, the qualified of whom can eventually earn the opportunity to be employed by Petron.

- **Petron Schools.** As a parallel effort and in support of DepEd's *Adopt-A-School Program*, PFI continued to pursue its school building program. In 2012, Petron was able to build a total of eight (8) new classrooms or four (4) Petron Schools in areas close to its depots located in Zamboanga del Norte, General Santos City and Tagbilaran City. In 2013, Petron was able to build a Petron School of four (4) new classrooms in San Miguel, Compostela Valley which was badly hit by Typhoon Pablo. This brings the total number of classrooms constructed to 197 classrooms or 80 schools, since 2002.
- Petron also sponsored the establishment of classrooms called *Silid Pangarap* for the pre-school level in support of SMC's commitment to the AGAPP (Aklat, Gabay, Aruga Tungo sa Pag-angat at Pag-asa) Foundation's program of building pre-schools. In 2013 Petron was building 39 classrooms, with 19 having already been turned over in Bataan, Compostela Valley, Samar, Tagaytay, Negros Oriental, South Cotabato, and Sultan Kudarat.

- **Youth in Entrepreneurship and Leadership Development (“YIELD”) Program.** One hundred third year students of the Muntinlupa Business High School (“MBHS”) learned the business of business through the YIELD program. PFI implemented the YIELD for the seventh year. YIELD has a total of 827 graduates. Under the YIELD program, the qualified MBHS students spent their summer at certain Petron company-owned and company-operated (“COCO”) stations to learn about the operations at the forecourt and back office and the rudiments of food service and business in COCO locators.
- **Skills Training Program for FEJODAP.** Eight-five members of the Federation of Jeepney Operators and Drivers Association of the Philippines (“FEJODAP”) and their dependents had been given technical/vocational skills training courses since July 2012, 25 of whom have already completed their courses this year. Throughout 2013, 140 more will receive vouchers to complete the 200 FEJODAP members to receive training as pledged by the Technical Education and Skills Development Authority and PFI.
- **Promotion of Environmental Sustainability.** In 2012, PFI continued to take a leading role in the implementation of the Bataan Integrated Coastal Management (“ICM”) Program in partnership with the Provincial Government of Bataan and the Global

		<p>Environment Facility-United Nations Development Programme-United Nations Office for Project Services Partnerships on Environmental Management for the Seas of East Asia (“GEF-UNDP-UNOPS PEMSEA”). Its activities included guiding local government units (“LGUs”) in developing the respective zoning plans in accordance with the Bataan Coastal Land and Sea Use Zoning Plan.</p> <p>Through a partnership among PFI, the Municipality of Malay in the Province of Aklan, SMC and the Boracay Foundation, Inc., the Boracay Beach Management Program (“BBMP”) was adopted to attain a sustainable development of Boracay Island. The BBMP celebrated its second year anniversary in September 2012 with key accomplishments that include increased water reliability (98%) and service coverage (96%), the acquisition of two (2) seacraft for sea patrol and emergency use and upgrading of communication equipment for better risk management, the establishment of coral nurseries near depleted coral reefs around the island, mangrove reforestation to preserve and ensure the survival of the island’s mangrove areas, and reforestation of the Nabaoy River Watershed. The two-year efforts of the BBMP have contributed to a host of local and international recognitions received by the island in 2012. As part of the celebration of BBMP’s second anniversary celebration, Petron signed a Memorandum of Agreement</p>
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with the Department of Natural Resources (“DENR”) and the Municipality of Malay to reforest and rehabilitate 20 hectares of the Nabaoy Watershed for the next three (3) years. This commitment is also aligned with Petron’s support to the DENR’s National Greening Program.

Petron also partnered with the DENR and the City Government of Marikina to support the *Adopt-An-Estero/Water Program* for the Marikina River and the DENR’s National Greening Program. In 2012, the program was commenced along the 3.1 kilometer stretch of the Concepcion Creek, a major tributary of the Marikina River and identified by the Marikina City Environmental Management Office as a program pilot site with a river cleanup. The dredging and rehabilitation of the creek banks and easements and repair of bike lanes commenced on identified areas of the Concepcion Creek and was completed in February 2013.

Petron is also committed to have its network of facilities nationwide adopt rivers and other water bodies within the proximity of their respective areas. As of 2012, the following Petron facilities have instituted their own *Adopt-An-Estero* activities:

- Nasipit Depot (Talisay Creek)
- Davao Depot (Pampanga Creek)
- Gasul Operations, San Fernando, Pampanga (Dela Paz Norte Creek)

- Gasul Operations, Legazpi City (Reniilisan Road Creek)
- Palawan Depot (City Estero)

For the National Greening Program, Petron undertook to contribute to the DENR's goal of planting 1.5 billion trees from 2011 to 2016. Together with Depot and Plant Operations, PFI established commitments to the greening campaign by the Roxas Depot (20 hectares in Nabaoy Watershed in Malay, Aklan) and the Iloilo Depot (five (5) hectares in Maasin Watershed, Iloilo Province).

Petron also continued to work with Petron Gasul in the dredging of the two-kilometer stretch where the Marikina and Pasig Rivers meet. As of the end of 2012, the operations were more than halfway through their target, with 81% or approximately 103,000 m<sup>3</sup> of the waterway dredged.

- **Community-Based Programs.** PFI and the PBR undertook strategic community programs that benefitted thousands of residents in the province such as the (a) *Sulong KaBataan* program that provided values formation, technical skills and leadership training to the youth and (b) *Sulong KaBarangay* program, a public-private partnership among the local government of Limay, DSWD, PFI, the PBR, and PinoyME Foundation, that helped establish four (4) community sub-projects and one livelihood sub-project by resident volunteers of

Barangays Alangan and Lamao. In 2012, a total of 101 out of school youths and 24 graduating college students from Balanga City, Municipalities of Orion and Abucay underwent values formation workshops under the *Sulong KaBataan* program and volunteers from Barangay Alangan and Lamao now supply the rug requirements of the PBR and produces doormats for local markets.

The Petron Community Health Center within the compound of the Pandacan Terminal served a total of 1,201 patients in 2012, bringing the total number to 2,637 since March 2010.

Petron continued to support the development of Rosario, Cavite through various CSR initiatives including the (a) rehabilitation of the waters off the coast of Rosario through the use of the artificial reef technology called REEFbuds in partnership with Yes2Life Foundation and the Rosario LGU and (b) donation of seed money to the Municipality of Rosario that allowed a total of 693 residents to secure loans to start or enhance their livelihood activities.

- **Responding to Crises.** Petron demonstrated its commitment anew to caring for the community when it immediately mobilized to assist hundreds of families displaced by several major typhoons that hit the country. It conducted relief operations in several cities and municipalities in Metro Manila and the provinces of Bataan, Bulacan,

and Rizal when Typhoon Gener and the southwest monsoon rains caused massive flooding in Metro Manila and the Central Luzon region in August 2012. In December 2012, its relief operations were brought to Compostela Valley and Davao Oriental when Typhoon Pablo hit the southern part of the Philippines. Relief operations were also conducted in (i) Zamboanga due to the siege in September 2013, (ii) Bohol and Cebu after the major earthquake in October 2013, and (iii) Leyte, Oriental Mindoro, Iloilo, Capiz and Cebu after Typhoon Yolanda (Haiyan) in November 2013.

In partnership with San Miguel Corporation, PFI also continued to support rehabilitation efforts being implemented jointly by Habitat for Humanity Philippines, Inc. and Gawad Kalinga to build houses for those displaced by Typhoon Sendong in December 2011. Petron's commitment is to help put up approximately 1,250 houses in the cities of Cagayan de Oro and Iligan.

And in line with efforts to help enhance business continuity and contribute to resilient communities, Petron partnered with the Corporate Network for Disaster Response for the Noah's Ark Project in enhancing the capabilities of LGUs and stakeholders to build disaster-resilient communities with the ultimate goal of attaining zero casualties. PFI adopted Barangay Nangka in Marikina City, one of the most disaster-prone areas in the country, for its first Noah's Ark



Project.

Petron also formalized a partnership with the Department of Science and Technology to implement Project NOAH or National Operational Assessment of Hazards in its key facilities nationwide, in support of the directive of President Benigno S. Aquino III for the country to establish a responsive program for nationwide disaster prevention and mitigation with a monitoring and early warning system along the Philippines' 18 major river basins. The aim is to be able to provide a six (6)-hour lead-time warning to vulnerable communities against impending floods utilizing advanced technology.

• **Advancing Sustainability Management and Reporting.**

Petron published its 2012 and 2011 Petron Sustainability Reports (each an "SR"). The 2012 SR is Petron's 5th year of publishing an SR that presents the Company's triple bottomline accounting of its business as it impacts on the economy environment and society. It follows the Global Reporting Initiative ("GRI") international guidelines on Sustainability Reporting, with a B+ level, and checked by an independent external review committee. The 2011 and 2012 SRs were checked by the GRI Head Office in Amsterdam for an Application Level Check for conformity to the guidelines. Petron is only one of a handful of companies that are producing an SR, the first Filipino company to attain a B+ Level GRI Report, and the first company to successfully

		undergo a GRI Application Level Check using the G3 Guidelines. Furthermore, the 2012 SR identified key indicators vis-à-vis the ISO 26000 standard on social responsibility.
Anti-corruption programmes and procedures?	The Code of Conduct expressly provides that bribes are against Petron policy and that Petron and its employees and officers shall neither solicit, receive nor offer or make, directly or indirectly, any illegal payments, remuneration, gifts, favors, commissions, donations, or comparable benefits which are intended or perceived to obtain business or uncompetitive favors for the conduct of its business.	Anti-corruption is also specifically set out as a policy in the Code of Conduct and is an offense punishable by disciplinary action under the Company Rules and Regulations on Discipline.  Training on anti-corruption is included in the values and leadership training seminars and employee orientation programs.
Safeguarding creditors' rights	The Code of Conduct expressly requires employees and officers at all times to be guided by the Company's vision and mission which highlight professionalism, integrity, fairness, commitment to excellence, and care of the environment as the core values of the Company. Petron insists that these values be observed in all aspects of business and expects the same in its relationships with all those with whom it does business.	Petron ensures that is able to meet its commitment as they arise. It also ensures that reports required under its facility agreements are timely delivered to the creditors.

**2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?**

Yes, Petron published its 2011 Petron Sustainability Report ("SR") in 2012 and its 2012 SR in 2013. The 2012 SR is the Company's 5th year of publishing an SR that presents the Company's triple bottomline accounting of its business as it impacts on the economy environment and society. It follows the Global Reporting Initiative ("GRI") international guidelines on Sustainability Reporting, with a B+ level, and checked by an independent external review committee. The 2011 SR and the 2012 SR were checked by the GRI Head Office in Amsterdam for an Application Level Check for conformity to the guidelines. Petron is only one of a handful of companies that are producing an SR, the first Filipino company to attain a B+ Level GRI Report, and the first company to successfully undergo a GRI Application Level Check using the G3 Guidelines. Furthermore, the 2012 SR identified key indicators vis-à-vis the ISO 26000 standard on social responsibility.

After four years of publishing its annual report and sustainability report separately, the Company integrated the reports for 2013 into one report entitled "*Going the Extra Mile (2013 Annual Report)*". As in the previous years, the 2013 annual report was subjected to independent scrutiny and reviewed in accordance with the GRI. The Company maintained its B+ Level GRI Report.

The Definitive Information Statement, the 2012 annual reports (both the SEC Form 17-A and the glossy version entitled “Forging Ahead, Thinking Big”), the 2013 annual report on SEC Form 17-A, , and the website of the Company each also has a separate CR/sustainability section.

### **3) Performance-enhancing mechanisms for employee participation.**

#### **(a) What is the company’s policy for its employees’ safety, health, and welfare?**

It is the policy of the Company to promote the safety, health and welfare of its employees. The Company has a corporate-wide health, safety and environment program. It also continues to conduct employee engagement programs that enable the employees to get fully involved in activities that both further their development and promote the interests of the Company.

To strengthen the coordination of health and safety in the Company, the Petron Safety Council was established to promote safe operations and improve the Company’s safety and reliability performance. Petron also launched in 2010 its Behavior-Based Safety program that aims to cultivate a culture of *malasakit* (“looking out for each other”). It is an innovative training initiative that motivates employees to adopt safety-conscious actions and behaviors.

The Company recognizes that work life balance positively affects the employees’ attitude towards their job, strengthens synergies among work groups, and fosters loyalty among employees, encouraging them to establish long-term careers with the Company. Work/life balance activities for Petron employees, such as the Art Club’s painting exhibit, photography sessions, and brown bag session, were also conducted. The Company also participated in activities that continued the cultural assimilation of the Company with the San Miguel Group and provided more synergy and productive exchanges of best practices and information. Petron employees participated in various events of the San Miguel Group that fostered camaraderie and promoted healthy such as Night Market, Valentine’s/Halloween parties, Human Resources Summit, Fun Olympics, Battle of the Bands, X Factor, and the integrated Christmas party for more than 5,000 employees of the San Miguel Group. There were also inter-company sports events such as basketball, bowling, futsal, darts, badminton and billiards.

#### **(b) Show data relating to health, safety and welfare of its employees.**

The Supply and Operations Group of the Company (“S&O”) achieved several milestones in their operations as well as recognitions from local government agencies. S&O achieved a significant safety milestone attaining zero Loss Time Incident (“LTI”) posting a combined record of 49.4 million safe-man-hours milestone covering the whole division and its contractors as of December 31, 2012. On December 6, 2012, all 31 terminals and depots of the Company were conferred with the 2011 *Safety Milestone* (“Smile”) award by the Department of Labor and Employment - Bureau of Working Conditions.

On the other hand, the Petron Bataan Refinery attained 1.4 million man-hours or 41 integrated man-days of safe refinery operations, inspite of the increased number of activities at the Petron Bataan Refinery during the year due to major turnaround and construction of pressure vessels and atmospheric tanks. Hazards and unsafe behaviors identified were addressed immediately to prevent them from causing accidents/incidents. With further regular training, safety audits and drills, the Petron Bataan Refinery attained 1,379 days work, or equivalent to 18.9 million man-hours, without loss time accident starting September 1, 2008 up to June 12, 2012.

Safety inspections were conducted at 25 depots and terminals and five (5) LPG mini refilling plants by the Company’s Operations Safety Group to ensure that the plants adhere to the Company’s standards on health and safety of all its employees, customers, suppliers, contractors and the general public. Safety inspections of sites at the contractors’ were also done. The Company’s Corporate Technical & Engineering Services Group

completed safety and mechanical inspections in eight (8) depots/terminals, 60 service stations and five (5) LPG-filling plants as part of the task force assigned to check on dealers' facilities.

The Company's Operations Health, Safety and Environment rigorously required all depots and terminals to conduct drills on emergency response to enhance the competency of its personnel to a level comparable with noted disaster response organizations. A total of 72 fire drills, six (6) oil spill drills and 38 other emergency drills which includes earthquake, flood, first aid response, bomb threat and evacuation drills were conducted in all facilities nationwide.

Depots and terminals receive, store and distribute finished petroleum products and various grades of lube oils and additives. All 31 depots and terminals attained zero LTI in 2011. Depot operations subscribe to Quality, Safety and Environment Management Systems to guide personnel in maintaining the quality, safe handling and delivery of products to customers.

**(c) State the company's training and development programmes for its employees. Show the data.**

The Company is committed to provide its employees a work environment that helps promote their development and potential, including through the provision of training programs that will enrich competencies, develop capabilities and skills and improve knowledge.

In 2013, the Company offered more than 700 programs and trainings to its officers and employees for total training hours of 69,996 or about 33 training hours per employee. While formal training was reduced, it was replaced by alternative online learning facilities focusing on, among others, leadership and personal effectiveness.

In 2012, the Company provided various in-house, local and foreign trainings to its officers and employees and trainings specific to the Petron Bataan Refinery for total training hours of 155,187. This translates to about 9.94 training days per employee.

The programs covered by the trainings include leadership, strategic management, service excellence, technical training and safety, professional skills development, supervisory skills, creativity and innovation. Fifty-five (55) sessions of developmental interventions such as *Raise the Bar*, *Unleash Your Creativity in the Workplace*, *Corporate Image* and *Labor Management Relations* were conducted to help employees demonstrate skills, attitudes and behaviors that are in accordance with the Company's core competencies. Moreover, 26 customized training programs on leadership and management development (e.g., *Entrepreneurial Development*, *Strategic Management in a Global Environment*, and *Finance for Strategic Decision Making*) were conducted to boost leaders' ability to lead and manage change.

In addition to trainings, the Company also encourages continuing education in accredited universities and colleges through the Company's Educational Reimbursement Program.

**(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures**

What the Company maintains is a variable pay program that is a vital component of the employees' total compensation package aimed at providing incentives for the workforce for the achievement of the Company's business goals and objectives. It encourages and rewards superior performance, achievements and behaviors based on pre-established goals and objectives, and encourages teamwork and accountability within the organization.

**4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.**

Whistle-blowing Policy

Prior to the adoption by the Board on May 6, 2013 of the Company's own whistle-blowing policy, the Company, as a subsidiary of San Miguel Corporation, observed the *San Miguel Corporation and Subsidiaries Whistle-blowing Policy*. The salient terms of both policies are as follows:

1. Accounting, internal accounting controls, auditing or financial reporting concerns may be communicated to the General Counsel and Compliance Officer (the "Compliance Officer").
2. All communications received by the Compliance Officer will be kept confidential and all relevant communications to be distributed to the Audit Committee.
3. The Audit Committee will determine necessary or appropriate action or response; and
4. Retaliation in any form against any interested party who, in good faith, raises a concern or reports a possible violation will not to be tolerated.

Company Rules and Regulations on Discipline

It is the policy of the Company under the Company Rules and Regulations on Discipline to subject to disciplinary action any regular, probationary or casual/project employee, irrespective of position or classification, who commits an offense against the Company, its property or its property.

The Company Rules and Regulations on Discipline provides implementation guidelines that primarily require that any disciplinary action be imposed only in accordance with applicable law and regulation and subject to the requirements of due process. Any third party or employee who has knowledge of an incident covered by the Company Rules and Regulations on Discipline may report the incident to the Company. The Vice President, Department Head or immediate supervisor of the subject employee will administer the policy and secure all acts and evidence material to the reported incident (the "Administrator").

In case of any infraction meriting a penalty of grave suspension or dismissal, the Administrator can recommend the formation of a fact-finding committee to pursue the investigation, which, in turn, can recommend the formation of a Disciplinary Action Hearing Committee if the investigation reveals substantial evidence to support the imposition of grave suspension or dismissal. The concerned employee will be informed of the charges against him and given ample opportunity to be heard and defend himself. All findings and conclusions should be supported by substantial evidence. The decision should also be communicated to the employee.

Code of Conduct

The Code of Conduct of Conduct sets out Petron's policy requiring the highest possible standards of ethical and business and conduct (and also specifically covers illegal activities such as bribery). The failure to comply with the terms of the Code of Conduct will subject an employee to discipline that may include counseling, reprimand, suspension and/or termination, in addition to any civil or criminal liability under existing laws. Disciplinary measures will depend on the circumstances of the violation and due process will be followed in the process.

The Code of Conduct requires as the responsibility of every employee and officer and the policy of the Company to encourage employees and officers to ask questions, seek guidance and report suspected violations. Any individual having information of knowledge of any prohibited act is mandated to promptly report such matters to the Department Head, Vice President, Human Resources Management Department, Internal Audit or the General

Counsel.

Others Means to Report

The Company also maintains its website and hotlines through which concerns of any person may be relayed to the Company for appropriate investigation and/or action.

**G. DISCLOSURE AND TRANSPARENCY**

**1) Ownership Structure**

**(a) Holding 5% shareholding or more** (updated pursuant to the SEC Form 17-C filed by the Company with the SEC on March 28, 2014 and the notice filed by the Petron Corporation Employees' Retirement Plan with the SEC on April 4, 2014, the disclosure to the PSE dated August 18, 2014, and the acquisition by Petron Corporation Employees' Retirement Plan of common shares on December 5, 2014 )

Shareholder	Number of Shares	Percent	Beneficial Owner
SEA Refinery Corporation	4,696,885,564	50.10	SEA Refinery Corporation
San Miguel Corporation	1,702,870,560	18.16	San Miguel Corporation
Petron Corporation Employees' Retirement Plan	1,386,156,097	7.80%	Petron Corporation Employees' Retirement Plan

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
None.			
<b>TOTAL</b>			

**2) Does the Annual Report disclose the following:**

Key risks	Yes.
Corporate objectives	Yes.
Financial performance indicators	Yes.
Non-financial performance indicators	Yes.
Dividend policy	Yes.
Details of whistle-blowing policy	Yes.
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes.
Training and/or continuing education programme attended by each director/commissioner	Yes.
Number of board of directors/commissioners meetings held during the year	Yes.
Attendance details of each director/commissioner in respect of meetings held	Yes.
Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes.

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

**3) External Auditor's fee**

Name of auditor	Audit Fee in 2012 (in Pesos)	Non-Audit Fee in 2012 (professional fees for due diligence and study of various internal projects and tax consulting services; in Pesos)
Manabat Sanagustin & Co., CPAs/KPMG	5,737,000.00	7,847,039

Name of auditor	Audit Fee in 2013 (in Pesos)	Non-Audit Fee in 2013 (professional fees for due diligence and study of various internal projects and tax consulting services; in Pesos)
Manabat Sanagustin & Co., CPAs/KPMG	6,026,150	8,038,492

**4) Medium of Communication**

List down the mode/s of communication that the company is using for disseminating information.

The Company has the following modes of communication for the dissemination of information:

External modes of communication

- Company website www.petron.com.
- Email and hotline telephone
- Disclosures made with the PSE and the SEC (including periodic structured reports such as the definitive information statement, the annual report and the quarterly reports and unstructured reports)
- Regular quarterly briefings and investor conferences
- Social networking sites
- Glossy annual report
- Interview of or correspondence with Management
- Print, radio and TV announcements/communications/releases

Internal modes of communication

- the modes above-listed
- intranet (PetHub)
- corporate newsletter (PetroNews)
- email blasts
- internal memoranda

**5) Date of release of audited financial report:**

Audited Financial Statements for year ended December 31, 2012: April 15, 2013

Audited Financial Statements for year ended December 31, 2013: April 15, 2014

## 6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes.
Financial statements/reports (current and prior years)	Yes.
Materials provided in briefings to analysts and media	Yes.
Shareholding structure	Yes.
Group corporate structure	Yes.
Downloadable annual report	Yes.
Notice of AGM and/or EGM	Yes.
Company's constitution (company's by-laws, memorandum and articles of association)	Yes.

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

## 7) Disclosure of RPT

Transactions between the Company and its parent, subsidiaries, associates and joint ventures are on an arm's length basis in a manner similar to transactions with non-related parties. Such transactions are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the final position of the related party and the market in which the related party operates.

Pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).

The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS and in the Definitive Information Statement and the annual report (SEC Form 17-A).

The list of the Company's related party transactions is as follows:

RPT	Relationship	Nature	Value
San Miguel Corporation	Ultimate parent	Purchase of services	Amount owed as of December 31, 2012: P20M  Amount owed as of December 31, 2013: P94M
Petron Corporation Employees' Retirement Plan	Benefit pension plan for permanent, regular and full time employees	Interest-bearing advances	Amount owed to Petron as of December 31, 2012: P15.52B



			Revenue generated: P557M  Amount owed to Petron as of December 31, 2013: P16.39B  Revenue generated: P777M
Various affiliates	Affiliates under common control	Supply of bunker, diesel fuel, gasoline and lube requirements	Amount owed to Petron as of December 31, 2012: P1.97B  Amount owed to Petron as of December 31, 2013: P2.98B
Various associates	Associates	Supply of bunker, diesel fuel, gasoline and lube requirements	Amount owed to Petron as of December 31, 2012: P17M  Amount owed to Petron as of December 31, 2013: P21M
Joint venture	Joint venture	Purchase of goods and services	Amount owed by Petron as of December 31, 2012: P25M  Amount owed by Petron as of December 31, 2013: P28M

**When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?**

Transactions with related parties are made on an arm's length basis in a manner similar to transactions with non-related parties. They are thus made at normal market prices and terms. An assessment is undertaken each financial year by examining the financial position of the related party and the market in which it operates.

And pursuant to the requirements of the CG Manual, the Company fully and timely discloses all material information concerning its operations, including significant related party transactions (excluding the purchase of crude oil in the normal course of business).

The Company likewise discloses its related party transactions through its consolidated financial statements in accordance with PFRS and in the Definitive Information Statement and the annual report (SEC Form 17-A).

**H. RIGHTS OF STOCKHOLDERS**

**1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings**

**(a) Quorum**

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

<b>Quorum Required</b>	Majority of the issued and outstanding capital stock of Petron entitled to vote
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**(b) System Used to Approve Corporate Acts**

Explain the system used to approve corporate acts.

<b>System Used</b>	The Company observes the one-vote-one-share rule.
<b>Description</b>	<p>The By-laws expressly provide that each stockholder shall at every meeting of the stockholders be entitled to one vote, in person or by proxy, for each share of capital stock held by such stockholder.</p> <p>In the case of election of directors, the By-laws provide for cumulative voting such that 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 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.</p> <p>If at any meeting of the stockholders a vote by ballot shall be taken, the By-laws require that 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.</p> <p>For the 2012, 2013 and 2014 annual stockholders' meetings, while a balloting system was prepared and made available, balloting was dispensed with with the approval by the stockholders of the verbal motions made to approve proposed resolutions.</p>

(c) **Stockholders' Rights**

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
Right to receive notices of meetings in accordance with the By-laws, which in turn, sets a 15-day rule for the delivery of the notice.	Notices of stockholders' meeting, together with the definitive information statement, are distributed no later than 15 business days before the meeting.
Right to attend stockholders' meetings	The stockholders of the Company are given the opportunity to directly ask Management and the Board during the open forum at stockholders' meetings in accordance with the guidelines set by the Company and announced at the start of the meetings

**Dividends** (updated pursuant to the SEC Form 17-Cs dated August 7, 2014 and November 7, 2014 filed by the Company)

Class of Shares	Declaration Date	Record Date	Payment Date
Common Shares	March 7, 2012	April 2, 2012	April 24, 2012
Preferred Shares	1. March 7, 2012  2. August 9, 2012	1. 2Q 2012: May 18, 2012 3Q 2012: August 16, 2012  2. 4Q 2012: November 16, 2012 1Q 2012: February 5, 2013	1. 2Q 2012: June 5, 2012 3Q 2012: September 5, 2012  2. 4Q 2012: December 5, 2012 1Q 2012: March 5, 2013
Common Shares	March 18, 2013	April 12, 2013	May 8, 2013
Preferred Shares	1. March 18, 2013  2. August 8, 2013	1. 2Q 2013: May 10, 2013 3Q 2013: August 8, 2013  2. 4Q 2013: November 11, 2013 1Q 2014: February 7, 2014	1. 2Q 2012: June 5, 2013 3Q 2012: September 5, 2013  2. 4Q 2012: December 5, 2013 1Q 2012: March 5, 2014
Common Shares	March 24, 2014	April 8, 2014	April 23, 2014
Preferred Shares	May 6, 2014	May 21, 2014	June 5, 2014
Preferred shares	August 6, 2014	August 22, 2014	September 5, 2014
Preferred shares	November 7, 2014	November 24, 2014	December 5, 2014
Preferred shares	November 7, 2014	February 18, 2015	March 5, 2015
Series 2 A Preferred shares	November 7, 2014	January 20, 2015	February 3, 2015
Series 2 B Preferred shares	November 7, 2014	January 20, 2015	February 3, 2015

**(d) Stockholders' Participation**

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>In all the stockholders' meetings of the Company, an open forum is scheduled after the presentation of the Management Report to give the stockholders the opportunity to directly ask questions or raise concerns and issues to Management and the Board.</p> <p>Representatives of the external auditors of the Company are also present at the meetings to respond to appropriate questions concerning the financial statements of the Company.</p> <p>The above measures were observed during the 2012, 2013 and 2014 annual stockholders' meetings held on May 15, 2012, May 21, 2013, and May 20, 2014, respectively.</p>	<p>After the Chairman has called the meeting to order, the Corporate Secretary announces that there will be an open forum after the Management Report and that, to give more stockholders the chance to ask questions, priority will be accorded to written questions given in advance. Question forms are made readily available from usherettes posted in accessible areas of the meeting venue.</p> <p>The identity of the stockholders is requested to be indicated and/or advised to allow the Company to write or email them in the event there is further information on their concerns or if their queries or concerns are not addressed for lack of time.</p> <p>The above procedure was observed during the 2012, 2013 and 2014 annual stockholders' meetings held on May 15, 2012, May 21, 2013, and May 20, 2014, respectively.</p>

State the company policy of asking shareholders to actively participate in corporate decisions regarding:

- a. Amendments to the company's constitution
- b. Authorization of additional shares
- c. Transfer of all or substantially all assets, which in effect results in the sale of the company

It is the policy of the Company under the CG Manual that shareholders' voting rights in general (not only those in respect of the matters listed above) are encouraged to be exercised. The CG Manual further provides that shareholder's rights should be promoted by removing impediments to the exercise of such shareholders' rights. The Board is thus tasked to do what is necessary to remove excessive unnecessary costs and other administrative impediments to stockholders' meaningful participation in meetings and/or voting in person or by proxy.

To encourage in general the participation by the stockholders in stockholders' meetings of the Company, such meetings are held in accessible venues. As an additional measure to disseminate information on the annual stockholders' meeting, the Company publishes in newspapers of general circulation the notices of the meeting. Further, the Company does not require any document or formality for the execution of proxies other than what is required in the law, e.g., proxies do not need to be notarized. In 2012, the annual stockholders' meeting was held in Edsa Shangri-La Manila Hotel located at 1 Garden Way, Ortigas Center, Mandaluyong City. In addition to the release of the notice of the meeting with the Definitive Information Statement, the notice was published in The Philippine Star and the Business Mirror on May 4, 2012. In 2013

and 2014, the annual stockholders' meetings were held in Valle Verde Country Club located at Capt. Henry P. Javier St., Pasig City. In addition to the release of the notice of the meeting with the Definitive Information Statement, the notice and agenda of the 2013 and 2014 annual stockholders' meeting were also published in The Philippine Star and The Manila Times on April 26, 2013 and The Philippine Star on April 16, 2014, respectively.

**3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?**

The notices of the 2012 annual stockholders' meeting were sent in accordance with the 15-business day requirement of the SRC Rules.

- a. **Date of sending out notices:** April 23, 2012
- b. **Date of the Annual/Special Stockholders' Meeting:** May 15, 2012

Similarly, the notices of the 2013 annual stockholders' meeting were sent in accordance with the 15-business day requirement of the SRC Rules.

- a. **Date of sending out notices:** April 26, 2013
- b. **Date of the Annual/Special Stockholders' Meeting:** May 21, 2013

For the 2014 annual stockholders' meeting, notices were sent in accordance with the 15-business day requirement of the SRC Rules.

- a. **Date of sending out notices:** April 25, 2014
- b. **Date of the Annual/Special Stockholders' Meeting:** May 20, 2014

**4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.**

Questions and comments were raised by stockholders during the 2012, 2013 and 2014 annual stockholders' meetings. All these were documented in the minutes made available to the stockholders during the 2013 annual stockholders' meeting in respect of questions raised during the 2012 meeting and during the 2014 annual stockholders' meeting in respect of questions raised during the 2013 meeting. Questions and comments raised during the 2014 annual stockholders' meeting are also documented in the minutes to be made available to the stockholders during the 2015 annual stockholders' meeting.

2012 Meeting

The questions and comments raised and the answers given are as follows:

- *Benefit of the acquisition by the Company of the downstream business of Exxon in Malaysia* - The Chairman explained that, with the acquisition of such integrated downstream business, the Company had extended its businesses outside the Philippines. The Company now owns and operates the Port Dickson Refinery, product terminals and a network of approximately 550 retail service stations in Malaysia.
- *Status of the Refinery Master Plan Phase 2 ("RMP-2") and the network expansion program.* - The Chairman replied that the construction of the RMP-2 was on schedule and expected to be completed in 2014. The completion of the RMP2 would enable the Company to increase its capability to process

heavier crudes and convert fuel oil into a broader range of products and petrochemical products. On the network expansion program, he explained that, as of end December 2011, the Company had built about 700 new stations thereby bringing the number of its service stations to about 2,000.

- *Offer for the sale of the Refinery to the government.* - Mr. Ang emphasized that the Company was not selling the Refinery. He explained that he just raised the thought on the sale when asked how else the Company could help the government since the acquisition of the Refinery would allow the government to closely monitor importations and collect appropriate taxes and duties.
- *Effect on the Company of the recent numerous decreases in gas retail prices.* - The Chairman explained that the Company was not always able to increase retail prices even when the price of crude oil went up. The high cost of inventory of such crude oil resulted in lower margins.
- *Requirements to qualify for a retail dealership* - Mr. Ang explained that the primary requirement for operating a service station was finding a good location that the Company could buy or lease long-term.
- *Reported acquisition by the San Miguel Group of Philippine Airlines.* - Mr. Ang replied that Philippine Airlines was already an existing client and the Company would continue to sell to it at competitive prices.
- *Comments relating to providing assistance for reconciling the records of their shares and receiving dividend payments.* - The stockholders were advised to approach the stock transfer agent, SMC Stock Transfer Services Corporation, whose representatives were present at the meeting. The Chairman also suggested that the stockholders concerned visit the Office of the Corporate Secretary of the Company.
- *Suggestion on LPG delivery.* - The Chairman explained that an LPG delivery scheme was already in place but any further assistance on the matter may be brought to the attention of the Company.

#### 2013 Meeting

The questions and comments raised and the answers given are as follows:

- *Oil smuggling and its effect on the Company* - The Chairman explained that oil smuggling has been present since the oil industry was deregulated. As smuggling becomes more rampant, less taxes are paid to the government and the volume that the Company sells may decrease since the prices from illegal sources are cheaper.
- *Status of the Company's investments in Malaysia* - The Chairman replied that Petron Malaysia was a good investment and the business in Malaysia was doing well. He encouraged the stockholders to go to Kuala Lumpur and see from the airport and all the way to the city how nice Petron's stations are. The Chairman noted that another investment as good as Petron Malaysia may not be easy to find. To answer a related query, the Chairman explained that the issue on branding in Malaysia was being addressed. While the name of Petron is close to Petronas', the Company was able to demonstrate the difference.
- *Entry of new players* - The Chairman explained that the Company could not do anything about the entry of new players. Under a deregulated market, new players are free to put up their own stations and purchase their products from different sources.
- *Dealership of the Bulilit stations* - The Chairman explained that the investment required for a *bulilit* station was minimal to facilitate the putting up of service stations in small locations. While a company-owned gas station would require around P 30-50 million as initial investment, he said that a *bulilit* station would only require about P5 million. The Chairman likewise noted that the *bulilit* stations may be

expanded to become regular stations. The lot size required for a *bulilit* station was estimated to be around 500-1,000 square meters.

- *Benefit of the RMP-2* - The Chairman replied that the Refinery was rated at 180,000 barrels a day but only runs at an average of 100,000 barrels a day. He explained that running the Refinery at full capacity would result in a bigger volume of bunker fuel which the Company was already selling at a loss. Once the Refinery is upgraded, the Company may run it at 100% and the bunker fuel would be converted to higher margin white products (e.g., gasoline, diesel) and more petrochemicals such as propylene and xylene.
- *Priority projects of Petron from 2013-2016* - The Chairman confirmed that the upgrade of the Refinery remains to be the priority project. Once the upgrade is completed, he explained that the Company's revenues would improve which would translate to higher share price and higher dividends.
- *New product of the Company available in the market* - The Chairman explained that the new product, "Super Extra Gasoline," is a result of directive from the Department of Energy that gasoline should have a minimum octane rating of 91RON.
- *Petron Value Card and its benefits* - The Chairman explained that the points earned by the Petron Value Card have no expiry and cardholders would soon have expanded benefits.
- *Lower amount of dividends was declared for the year* - The Chairman said that the sudden drop of crude oil prices in the world market resulted in a decrease in revenues. He, however, assured the stockholders that once the Refinery upgrade is completed, the Company's revenues would increase.
- *Network expansion program* - The Chairman explained that the network expansion program was still ongoing. After three (3) years of undergoing its expansion program, the Company had more than 2,000 stations.
- *Status of Pandacan depot relocation* - The Chairman noted that the Company would comply with the orders of the City of Manila and the Company would cooperate to move out of Pandacan by 2016. The Company has started to build tanks in Limay, Bataan, Rosario, Cavite and Navotas.

## 5. Result of Annual/Special Stockholders' Meeting's Resolutions

The results of the 2014 annual stockholders' meeting are as follows:

Resolution	Approving	Dissenting	Abstaining
Approval of amendment of articles of incorporation to indicate specific principal office address	7,303,645, 927 (77.08% of aggregate of common and preferred shareholdings)	0 (0%)	0 (0%)
Approval of minutes of 2013 annual stockholders' meeting	7,296,585,237 (77.83%)	3,302,700 (0.035%)	0 (0%)
Approval of management report for year ended December 31, 2013	7,296,585,237 (77.83%)	0 (0%)	3,302,700 (0.035%)
Ratification of acts of director and officers since last annual stockholders' meeting	7,299,887,937 (77.87%)	0 (0%)	0 (0%)
Appointment of R.G. Manabat as external auditor	7,177,986,364 (76.56%)	121,901,573 (1.3%)	0 (0%)

## Election of Directors

No.	Nominee	IN FAVOR	AGAINST	ABSTAIN	UNCAST	TOTAL
1	RAMON S. ANG	7,178,595,079	640,600	121,260,973	3,757,990	7,304,254,642
2	ERIC O. RECTO	7,178,595,079	640,600	121,260,973	3,757,990	7,304,254,642
3	LUBIN B. NEPOMUCENO	7,179,235,678	0	121,260,973	3,757,990	7,304,254,641
4	EDUARDO M. COJUANGCO, JR.	7,179,235,677	0	121,260,973	3,757,990	7,304,254,640
5	ESTELITO P. MENDOZA	7,178,595,077	640,600	121,260,973	3,757,990	7,304,254,640
6	JOSE P. DE JESUS	7,179,235,677	0	121,260,973	3,757,990	7,304,254,640
7	RON W. HADDOCK	7,179,235,676	0	121,260,973	3,757,990	7,304,254,639
8	AURORA T. CALDERON	7,113,111,785	640,600	177,613,573	3,757,990	7,295,123,948
9	MIRZAN MAHATHIR	7,178,595,076	640,600	121,260,973	3,757,990	7,304,254,639
10	ROMELA M. BENGZON	7,179,235,676	0	121,260,973	3,757,990	7,304,254,639
11	VIRGILIO S. JACINTO	7,179,235,676	0	121,260,973	3,757,990	7,304,254,639
12	NELLY FAVIS-VILLAFUERTE	7,179,235,676	0	121,260,973	3,757,990	7,304,254,639
13	REYNALDO G. DAVID	7,299,856,049	640,600	0	3,757,990	7,304,254,639
14	ARTEMIO V. PANGANIBAN	7,178,595,076	640,600	121,260,973	3,757,990	7,304,254,639
15	MARGARITO B. TEVES	7,300,496,649	0	0	3,757,990	7,304,254,639
TOTAL		107,861,089,606	4,484,200	1,632,745,249	56,369,850	109,554,688,905

The results of the 2013 annual stockholders' meeting are as follows:

Resolution	Approving	Dissenting	Abstaining
Approval of amendment of articles of incorporation to extend the Company's corporate term	7,957,647, 868 (83.99% of aggregate of common and preferred shareholdings)	0 (0%)	0 (0%)
Approval of minutes of 2012 annual stockholders' meeting	7,949,427,258 (84.79%)	0 (0%)	0 (0%)
Approval of management report for year ended December 31, 2012	7,949,427,258 (84.79%)	0 (0%)	0 (0%)
Ratification of acts of director and officers since last annual stockholders' meeting	7,949,427,258 (84.79%)	0 (0%)	0 (0%)
Appointment of Manabat Sanagustin Co., CPAs as external auditor	7,948,754,158 (84.79%)	673,100 (0.007%)	0 (0%)



## **Election of Directors**

NOM. NO.	NOMINEE	SHARES VOTED
1	RAMON S. ANG	7,942,188,365
2	ERIC O. RECTO	7,951,981,865
3	LUBIN N. NEPOMUCENO	7,952,654,965
4	EDUARDO M. COJUANGCO, JR.	7,952,654,965
5	ESTELITO P. MENDOZA	7,951,981,865
6	BERNARDINO R. ABES	7,952,654,965
7	ROBERTO V. ONGPIN	7,951,981,865
8	RON W. HADDOCK	7,952,654,965
9	AURORA T. CALDERON	7,939,094,915
10	MIRZAN MAHATHIR	7,951,981,865
11	ROMELA M. BENGZON	7,952,654,965
12	VIRGILIO S. JACINTO	7,943,679,115
13	NELLY FAVIS-VILLAFUERTE	7,952,654,965
14	REYNALDO G. DAVID	7,951,981,865
15	ARTEMIO V. PANGANIBAN	7,951,981,865

The results of the 2012 annual stockholders' meeting are as follows:

Resolution	Approving	Dissenting	Abstaining
Approval of minutes of 2011 annual stockholders' meeting	8,091,356,421 (86.31%)	0 (0%)	0 (0%)
Approval of the annual report for year ended December 31, 2011	8,078,309,121 (86.17%)	13,047,300 (0.14%)	0 (0%)
Ratification of acts of director and officers since last annual stockholders' meeting	8,061,889,721 (85.99%)	29,466,700 (0.31%)	0 (0%)
Appointment of Manabat Sanagustin Co., CPAs as external auditor	8,078,309,121 (86.17%)	13,047,300 (0.14%)	0 (0%)

						IN FAVOR	AGAINST	ABSTAIN	UNCAST	TOTAL
<b>Election of the Board of Directors</b>										
	Ramon S. Ang					8,077,929,221	379,900	13,047,300	101,384,368	8,192,740,789
	Eric O. Recto					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Eduardo M. Cojuangco Jr.					8,077,929,221	379,900	13,047,300	101,384,368	8,192,740,789
	Estelito P. Mendoza					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Bernardino R. Abes					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Roberto V. Ongpin					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Ron W. Haddock					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Aurora T. Calderon					8,027,055,421	51,253,700	13,047,300	101,384,368	8,192,740,789
	Mirzan Mahathir					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Romela M. Bengzon					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Ferdinand K. Constantino					8,027,055,421	51,253,700	13,047,300	101,384,368	8,192,740,789
	Virgilio S. Jacinto					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Nelly Favis-Villafuerte					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Reynaldo G. David					8,078,309,121		13,047,300	101,384,368	8,192,740,789
	Artemio V. Panganiban					8,078,309,121		13,047,300	101,384,368	8,192,740,789

**6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:**

Save for the election of directors where the 15 nominees who got the highest votes were announced to have been elected as directors, all proposed resolutions presented during the 2012 annual stockholders' meeting only required the majority vote of the outstanding capital stock entitled to vote. On a verbal motion made and duly seconded, each proposed resolution was approved and was announced to have been so approved by the Chairman during the meeting.

For the 2013 annual stockholders' meeting, all proposed resolutions presented required the majority vote of the outstanding capital stock entitled to vote, except the election of directors where the 15 nominees who got the highest votes were announced to have been elected as directors and the ratification of the proposed extension of the corporate term of the Company which required at least 2/3 vote of all outstanding capital stock. On a verbal motion made and duly seconded, each proposed resolution was approved with the required number of votes and was announced to have been so approved by the Chairman during the meeting.

For the 2014 annual stockholders' meeting, all proposed resolutions presented required the majority vote of the outstanding capital stock entitled to vote, except the election of directors where the 15 nominees who got the highest votes were announced to have been elected as directors and the ratification of the proposed amendment of Article Third of the Articles of the Company to indicate a specific office address which required at least 2/3 vote of all outstanding capital stock. On a verbal motion made and duly seconded, each proposed resolution was approved with the required number of votes and was announced to have been so approved by the Chairman during the meeting.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None.	

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

2014

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	<p>Directors</p> <ol style="list-style-type: none"><li>1. Ramon S. Ang (Chairman)</li><li>2. Eduardo M. Cojuangco, Jr. (by proxy)</li><li>3. Eric O. Recto</li><li>4. Mirzan Mahathir</li><li>5. Bernardino R. Abes</li><li>6. Ron W. Haddock</li><li>7. Romela M. Bengzon</li><li>8. Aurora T. Calderon</li><li>9. Ferdinand K. Constantino</li><li>10. Virgilio S. Jacinto</li><li>11. Nelly Favis-Villafuerte</li><li>12. Jose P. De Jesus</li><li>13. Reynaldo G. David (independent)</li><li>14. Artemio V. Panganiban (independent)</li><li>15. Margarito B. Teves (independent)</li></ol> <p>Officers</p> <ol style="list-style-type: none"><li>1. Lubin B. Nepomuceno – President</li><li>2. Emmanuel E. Eraña - SVP &amp; CFO</li><li>3. Susan Y. Yu – VP, Procurement</li><li>4. Ma. Rowena O. Cortez – VP, Supply</li><li>5. Albertito S. Sarte – VP, Treasurers &amp; Treasurer</li><li>6. Freddie P. Yumang – VP, Refinery</li><li>7. Archie B. Gupalor – VP, National Sales</li></ol>	May 20, 2014	Balloting dispensed with; voting carried by motions made and duly seconded	0.04%	77.08%	77.12%

	8. Efren P. Gabrillo – VP, Controllers & Controller 9. Rodolfo L. Tablante – VP, Operations 10. Joel Angelo C. Cruz – VP, General Counsel, Corporate Secretary & Compliance Officer					
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2013

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	<p>Directors</p> <ol style="list-style-type: none"> <li>Ramon S. Ang (Chairman)</li> <li>Eduardo M. Cojuangco, Jr.</li> <li>Roberto V. Ongpin</li> <li>Eric O. Recto</li> <li>Mirzan Mahathir</li> <li>Bernardino R. Abes</li> <li>Ron W. Haddock</li> <li>Romela M. Bengzon</li> <li>Aurora T. Calderon</li> <li>Ferdinand K. Constantino</li> <li>Virgilio S. Jacinto</li> <li>Nelly Favis-Villafuerte</li> <li>Reynaldo G. David (independent)</li> <li>Artemio V. Panganiban (independent)</li> </ol> <p>Officers</p> <ol style="list-style-type: none"> <li>Lubin B. Nepomuceno – President</li> <li>Emmanuel E. Eraña - SVP &amp; CFO</li> <li>Susan Y. Yu – VP, Procurement</li> <li>Ma. Rowena O. Cortez – VP, Supply &amp; Operations</li> <li>Albertito S. Sarte – VP, Treasurers &amp; Treasurer</li> <li>Freddie P. Yumang – VP, Refinery</li> <li>Archie B. Gupalor – VP, National Sales</li> <li>Efren P. Gabrillo – VP, Controllers &amp; Controller</li> <li>Joel Angelo C. Cruz – VP, General Counsel, Corporate Secretary &amp; Compliance Officer</li> </ol>	May 21, 2013	Balloting dispensed with; voting carried by motions made and duly seconded	1.96%	82.49%	84.45%

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	<p><u>Directors</u></p> <ol style="list-style-type: none"> <li>1. Ramon S. Ang (Chairman)</li> <li>2. Eduardo M. Cojuangco, Jr.</li> <li>3. Roberto V. Ongpin</li> <li>4. Estelito P. Mendoza</li> <li>5. Eric O. Recto</li> <li>6. Mirzan Mahathir</li> <li>7. Bernardino R. Abes</li> <li>8. Ron W. Haddock</li> <li>9. Romela M. Bengzon</li> <li>10. Aurora T. Calderon</li> <li>11. Ferdinand K. Constantino</li> <li>12. Virgilio S. Jacinto</li> <li>13. Nelly Favis-Villafuerte</li> <li>14. Reynaldo G. David (independent)</li> <li>15. Artemio V. Panganiban (independent)</li> </ol> <p><u>Officers</u></p> <ol style="list-style-type: none"> <li>1. Eric O. Recto – President</li> <li>2. Lubin B. Nepomuceno – SVP &amp; General Manager</li> <li>3. Emmanuel E. Eraña - SVP &amp; CFO</li> <li>4. Susan Y. Yu – VP, Procurement</li> <li>5. Ma. Rowena O. Cortez – VP, Supply &amp; Operations</li> <li>6. Albertito S. Sarte – VP, Treasurers &amp; Treasurer</li> <li>7. Freddie P. Yumang – VP, Refinery</li> <li>8. Archie B. Gupalor – VP, National Sales</li> <li>9. Efren P. Gabrillo – VP, Controllers &amp; Controller</li> <li>10. Joel Angelo C. Cruz – AVP, General Counsel, Corporate Secretary &amp; Compliance Officer</li> </ol>	May 15, 2012	Balloting dispensed with; voting carried by motions made and duly seconded	2.10%	85.29%	87.39%

**(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?**

Under the 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.

For the 2012, 2013 and 2014 annual stockholders' meetings, however, balloting was dispensed with with the approval by the stockholders of verbal motions made to approve the proposed resolutions.

**(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.**

Yes, the By-laws expressly provide that each stockholder shall at every meeting of the stockholders be entitled to one vote, in person or by proxy, for each share of capital stock held by such stockholder.

In the case of election of directors, the By-laws provide for cumulative voting such that 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 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.

Preferred shares of the Company are non-voting, except that the preferred stockholders have the right to vote in cases expressly provided by law such as (i) amendment of the Articles of Incorporation, (ii) amendment of the by-laws, (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property, (iv) incurring, creating or increasing bonded indebtedness, (v) increase or decrease of capital stock, (vi) merger or consolidation of the Company with another corporation or other corporations, (vii) investment of corporate funds in another corporation or business in accordance with the Corporation Code and (viii) dissolution of the Company.

**(g) Proxy Voting Policies**

**State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.**

	Company's Policies
Execution and acceptance of proxies	The By-laws allow proxies. Proxies shall be in writing, signed by the stock holder and filed with the Corporate Secretary before the scheduled meeting. The By-laws require that all proxy forms must be received by the Company at least 10 working days before the scheduled meeting of the stockholders.  In the case of a corporation, the proxy must be accompanied by a Secretary's Certificate setting out the authority of the corporate officer to execute the proxy.
Notary	Proxies need not be notarized.
Submission of Proxy	The By-laws require that all proxy forms must be received by the Company at least 10 working days before the scheduled meeting of the stockholders.
Several Proxies	The Company observes the rules on several proxies set out in the SRC Rules.

Validity of Proxy	Proxies shall be in writing, signed by the stockholder and filed with the Corporate Secretary at least 10 working days before the scheduled meeting. In the case of a corporation, the proxy must be accompanied by a Secretary's Certificate setting out the authority of the corporate officer to execute the proxy. Notarization is not required.
Proxies executed abroad	Proxies executed abroad shall be duly authenticated by the Philippine Embassy or Consular Office.
Invalidated Proxy	Invalidated proxies will not be considered for purposes of determining attendance, quorum and voting.  A revocation by a stockholder either in an instrument in writing duly presented and recorded with the Corporate Secretary at least five (5) days prior to a scheduled meeting or by his personal presence at the meeting invalidates a proxy.
Validation of Proxy	The Board sets the date, time and place for the validation of proxies. Such date, time and place are specified in the notice of the meeting.
Violation of Proxy	Any vote made in violation of the terms of a proxy will not be considered for purposes of computing votes cast and voting results.

**(h) Sending of Notices**

**State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.**

<b>Policies</b>	<b>Procedure</b>
The By-laws provide that, except as otherwise provided by statute, written or printed notice of all annual and special meetings of stockholders stating the place and time of the meeting and the general nature of the business to be considered shall be sent by facsimile, personal delivery, or by mail postage prepaid, at least 15 days before the day on which the meeting is to be held to each stockholder of record at his last known post-office address, or, at the option of the Company, by publication in a newspaper of general circulation, provided that, unless expressly required by law, no publication of any notice of a meeting of stockholders shall be required.	The Company sends out the notice of any stockholders' meeting within the period set by the SRC Rules.  And while it is not required by law, the Company publishes the notice in two (2) newspapers of general circulation. The notice and agenda of the annual meeting of the stockholders in 2012 were published in The Philippine Star and the Business Mirror on May 4, 2012. The notice of and agenda of the annual meeting of the stockholders in 2013 were published in the Philippine Star and The Manila Times on April 26, 2013. The notice and agenda of the annual meeting of the stockholders in 2014 were published in the Philippine Star on April 16, 2014.

(i) **Definitive Information Statements and Management Report**

<p><b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b></p>	<p>On April 2, 2012, the record date of the 2012 annual stockholders' meeting, the Company had 159,418 common shareholders and 124 preferred shareholders or a total of 159,542 shareholders.</p> <p>On April 12, 2013, the record date of the 2013 annual stockholders' meeting, the Company had 155,414 common shareholders and 119 preferred shareholders or a total of 155,533 shareholders.</p> <p>On April 8, 2014, the record date of the 2014 annual stockholders' meeting, the Company had 152,653 common shareholders and 120 preferred shareholders or a total of 152,773 shareholders.</p>
<p><b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b></p>	<ul style="list-style-type: none"> <li>• April 23, 2012 for the 2012 annual stockholders' meeting</li> <li>• April 26, 2013 for the 2013 annual stockholders' meeting</li> <li>• April 28, 2014 for the 2014 annual stockholders' meeting</li> </ul>
<p><b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b></p>	<ul style="list-style-type: none"> <li>• April 23, 2012 for the 2012 annual stockholders' meeting</li> <li>• April 26, 2013 for the 2013 annual stockholders' meeting</li> <li>• April 25, 2014 for the 2014 annual stockholders' meeting</li> </ul>
<p><b>State whether CD format or hard copies were distributed</b></p>	<p>The Definitive Information Statement for the 2012, 2013 and 2014 annual stockholders' meetings was distributed in CD format, enclosed with a printed copy of the notice and agenda signed by the Corporate Secretary and instructions on how to open the files. Prior approval from the Corporation Finance Department of the SEC was obtained for the use of the CD format and the distribution of the Definitive Information Statement in such form.</p>
<p><b>If yes, indicate whether requesting stockholders were provided hard copies</b></p>	<p>Yes, hard copies of the Definitive Information Statement were made available and distributed during the date of the 2012, 2013 and 2014 annual stockholders' meetings. No stockholder requested a hard copy prior to the date of the meeting.</p>



**(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:**

Each resolution to be taken up deals with only one item.	Yes.
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Yes.
The auditors to be appointed or re-appointed.	Yes.
An explanation of the dividend policy, if any dividend is to be declared.	Yes – although there was no dividend declaration requiring stockholder approval ( <i>i.e.</i> , stock dividends) was proposed during the 2012, 2013 and 2014 annual stockholders' meeting.
The amount payable for final dividends.	Not applicable. The Company, through the Board, declared cash dividends.
Documents required for proxy vote.	Yes.

**Should any of the foregoing information be not disclosed, please indicate the reason thereto.**

**2) Treatment of Minority Stockholders**

**(a) State the company's policies with respect to the treatment of minority stockholders.**

<b>Policies</b>	<b>Implementation</b>
The CG Code expressly provides that the Board is committed to respect the legal rights of the Company's stockholders in general and is responsible for promoting shareholder's rights, removing impediments to the exercise of shareholders' rights and facilitating adequate avenue for them to seek timely redress for violation of their rights.	To facilitate the exercise by the minority of their rights as minority stockholders, and in addition to the right to vote, information and inspect corporate records and the appraisal right that apply to stockholders in general, minority stockholders are also specifically granted the following rights under CG Manual: <ul style="list-style-type: none"> <li>• the right to propose the holding of a meeting through the written request of one or more stockholders owning at least 20% of the total issued and outstanding capital stock of the Company entitled to vote; and</li> <li>• the right to propose legitimate items in the agenda of the stockholders' meeting in accordance with law, jurisprudence and best practice</li> </ul>

**(b) Do minority stockholders have a right to nominate candidates for board of directors?**

Yes, minority stockholder have the right to nominate candidates for director.

**I. INVESTORS RELATIONS PROGRAM**

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.**

The Company has a Corporate Affairs Department which has a Strategic Communications Section which handles both external and internal communications. This section handles external communications with and to various stakeholders, including the media and the employees, and oversees internal communications such internal publications, media releases, the corporate intranet, and social networking sites. The Company likewise has an investor relations unit under the CFO to handle handles regular communications with institutional investors.

All information and disclosures for release are cleared and approved by the General Counsel, the CFO, the President, and the Chairman.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.**

	Details
(1) Objectives	To effectively communicate the Company's performance, plans and strategies to the capital market, as well as, develop a long-term relationship of trust with stakeholders, using the discipline in finance, communication and marketing and manage the content and flow of company information/disclosures to the financial markets
(2) Principles	Provide consistent and reliable information that will assist investors in their investment decision
(3) Modes of Communications	Investors' briefings, annual stockholders' meetings, Company disclosures, investor relations meetings, roadshows, Petron website, social networking media, and responding to mail, email, telephone, and fax inquiries
(4) Investors Relations Officer	Corporate Affairs Department Telephone No. (632) 886-3888

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?**

Any major plans or extraordinary transaction of the Company is reviewed by a team that evaluates the viability of the transaction and ensures that it will have a strategic fit with the Company. Any project that passes the review is presented to the Board for approval.

**Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.**

The Company gets the services of investment banks which will provide advice on the fairness of the transaction price. In addition, the independent directors sitting in the Board can provide an objective and impartial analysis of any proposed transaction and its details, including the fairness of the valuation or the transaction price.

**J. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

**Discuss any initiative undertaken or proposed to be undertaken by the company.**

In February 2012, Petron was honored by the Management Association of the Philippines with the prestigious Integral CSR Award which recognized Petron’s earnest efforts to make social responsibility an integral function of the entire organization manifested in every aspect of its business operations.

Petron also received the Special Award for Environment and Sustainable Development for its entry *Measuring, Managing and Minimizing Our Environment Footprint in Bataan* for the Company’s initiatives to preserve and protect the environment and promote sustainable development in the Province of Bataan.

Petron Foundation, Inc. (“PFI”) continued to be at the forefront of Petron’s efforts to make a sustainable impact to society and the environment, while at the same time helping the Company attain its business goals.

Among the corporate social responsibility (“CSR”) and sustainability activities of Petron and PFI are set out in the table below.

Initiative	Beneficiary
<p><b>Tulong Aral ng Petron:</b> a long-term, strategic initiative that helps send poor children to school through scholarship programs for elementary, high school and college/vocational students; Petron’s centerpiece CSR program that defines what Petron stands for socially - to FUEL H.O.P.E. (Helping the Filipino children and youth Overcome Poverty through Education).</p>	<p>2012</p> <ul style="list-style-type: none"> <li>• 3,486 scholars enrolled in Grades one to six;</li> <li>• 372 enrolled in high school; and</li> <li>• 24 enrolled in college</li> </ul> <p>2013</p> <ul style="list-style-type: none"> <li>• 2,687 scholars enrolled in Grades one to six;</li> <li>• 442 enrolled in high school; and</li> <li>• 24 enrolled in college</li> </ul>
<p><b>Petron Schools:</b> pursuit of school building program in support of DepEd’s <i>Adopt-A-School Program</i></p>	<p>In 2012: eight (8) new classrooms or four (4) Petron Schools for residents in areas close to the Company’s depots located in Zamboanga del Norte, General Santos City and Tagbilaran City</p> <p>In 2012: four (4) new classrooms in Compostela Valley which was badly hit by Typhoon Pablo</p>
<p><b>Silid Pangarap:</b> building classrooms for the pre-school level in support of San Miguel Corporaiton’s commitment to the AGAPP (Aklat, Gabay, Aruga Tungo sa Pag-angat at Pag-asa) Foundation’s program of building pre-schools</p>	<p>In 2012: 27 classrooms, with 17 having already been turned over for pre-school residents in Bataan, Samar, Tagaytay, Negros Oriental, South Cotabato, and Sultan Kudarat</p>

	In 2013: from 27 to 39 classrooms, with 19 having already been turned over for pre-school residents in Bataan, Compostela Valley Samar, Tagaytay, Negros Oriental, South Cotabato, and Sultan Kudarat
<p><b>Promotion of Environmental Sustainability:</b></p> <p>1. Bataan Integrated Coastal Management Program: PFI taking a lead role in the implementation of the program in partnership with the Provincial Government of Bataan and the Global Environment Facility-United Nations Development Programme-United Nations Office for Project Services Partnerships on Environmental Management for the Seas of East Asia</p> <p>2. Boracay Beach Management Program (“BBMP”): through a partnership among PFI, the Municipality of Malay in the Province of Aklan, SMC and the Boracay Foundation, Inc., adoption of BBMP to attain a sustainable development of Boracay Island</p> <p>3. <i>Adopt-An-Estero/Water Program</i>: clean up of the Concepcion Creek in Marikina</p> <p>4. National Greening Program: Undertaking to contribute to the DENR’s goal of planting 1.5 billion trees from 2011 to 2016.</p>	<p>1. Local government units in Bataan and their residents</p> <p>2. Filipinos, in general; residents and visitors to Boracay, in particular</p> <p>3. Marikina City and its residents</p> <p>4. the environment</p>
<p><b>Community-Based Programs:</b></p> <p><i>Sulong KaBataan</i>: a program for values formation, technical skills and leadership training to the youth</p> <p><i>Sulong KaBarangay</i> program, a public-private partnership among the local government of Limay, DSWD, PFI, the PBR, and PinoyME Foundation, that helped establish four (4) community sub-projects and one livelihood sub-project by resident volunteers of Barangays Alangan and Lamao</p>	Residents of Bataan
<p><b>Responding to Crises:</b></p> <p>1. <u>Relief operations</u> in (a) several cities and municipalities in Metro Manila and the provinces of Bataan, Bulacan, and Rizal when Typhoon Gener and the southwest monsoon rains caused massive flooding in Metro Manila and the Central Luzon region in August 2012, (b) Compostela Valley and Davao Oriental when Typhoon Pablo hit the southern part of the Philippines in December 2012, (c) Zamboanga during the siege in September 2013, (d) Bohol and Cebu after the major earthquake in October 2013 and (e) Leyte, Oriental Mindoro,</p>	<p>1-3. Families affected by flooding/disaster in the various areas cited</p> <p>4. Public in general</p>

<p>Iloilo, Capiz and Cebu after Typhoon Yolanda (Haiyan) in November 2013</p> <p>2. <u>Building houses</u> by participating in Habitat for Humanity Philippines, Inc. and Gawad Kalinga to build houses for those displaced by Typhoon Sendong in December 2011.</p> <p>3. <u>Participation in the Noah’s Ark Project</u> in enhancing the capabilities of local government units and stakeholders to build disaster-resilient communities with the ultimate goal of attaining zero casualties by adopting Barangay Nangka in Marikina City for the project</p> <p>4. <u>Formalization of a partnership with the Department of Science and Technology to implement Project NOAH</u> or National Operational Assessment of Hazards in its key facilities nationwide, in support of the directive of President Benigno S. Aquino III for the country to establish a responsive program for nationwide disaster prevention and mitigation with a monitoring and early warning system along the Philippines’ 18 major river basins.</p>	
<p><b>Skills Training Program for FEJODAP:</b> Eight-five members of the Federation of Jeepney Operators and Drivers Association of the Philippines (“FEJODAP”) and their dependents given technical/vocational skills training courses</p>	<p>FEJODAP members and their dependents</p>
<p><b>Youth in Entrepreneurship and Leadership Development (“YIELD”) Program.</b> One hundred third year students of the Muntinlupa Business High School spent their summer at certain Petron company-owned and company-operated stations to learn about service station operations at the forecourt and back office and the rudiments of food service and business of the locators in such stations</p>	<p>100 qualified students of the partner school</p>

**K. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL**

**Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.**

On August 6, 2013, the Board adopted a new format for the annual self-assessment by each director. The self-assessment forms covers the evaluation of the (i) fulfillment of the key responsibilities of the Board 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 and the Management of the Company including having a clear understanding of where the role of the Board ends and where that of Management

begins, the participation of the Board 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 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 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 of incorporation, 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.

**L. INTERNAL BREACHES AND SANCTIONS**

**Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees**

Violations	Sanctions
<p>The CG Manual mandates the directors, officers and employees to strictly observe and implement its provisions and provides penalties to imposed after notice and hearing on the Company's directors, officers and employees in case of violation of any of the provisions of the CG Manual.</p> <p>The Compliance Officer is responsible for determining violation/s through notice and hearing and recommending to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.</p>	<p>The CG Manual imposes the following sanctions in case of violation of its provisions:</p> <ul style="list-style-type: none"> <li>• In case of first violation, the offender shall be reprimanded.</li> <li>• For second violation, suspension from office shall be imposed on the offender. The duration of suspension shall depend on the gravity of the violation. This penalty shall not apply to the members of the Board.</li> <li>• For third violation, the maximum penalty of removal from office shall be imposed on the offender. In case the offender is a member of the Board, the provision of Section 28 of the Corporation Code on removal of directors shall be observed.</li> </ul>

A substantial number of the answers to this Annual Corporate Governance Report is based on the records and reports of the Company and not from the personal knowledge of the signatories.

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Mandaluyong on July 1, 2013.

#### SIGNATURES

(original signed)

---

**Ramon S. Ang**  
Chairman of the Board & Chief Executive Officer

(original signed)

---

**Lubin B. Nepomuceno**  
President

(original signed)

---

**Reynaldo G. David**  
Independent Director

(original signed)

---

**Artemio V. Panganiban**  
Independent Director

(original signed)

---

**Joel Angelo C. Cruz**  
Compliance Officer

SUBSCRIBED AND SWORN TO before me this July 1, 2013 at Mandaluyong City, Philippines, affiants exhibiting to me the following competent forms of identification and avowed under penalty of law to the whole truth of the contents of the foregoing Certificate:

Names	Passport Number	Date/Place of Issue
Ramon S. Ang	XX0748364	11 July 2011 /DFA Manila
Lubin B. Nepomuceno	EB5027219	29 Mar 2012 /DFA Manila
Joel Angelo C. Cruz	EB6976457	19 Dec 2012 /DFA Manila
Artemio V. Panganiban	EB0110958	16 Apr 2010 /DFA Manila
Reynaldo G. David	XX3664452	08 May 2009 /DFA Manila

Doc. No. 214;  
Page No. 44;  
Book No. IX;  
Series of 2013.

(original signed)  
ROMMEL L. BAWALAN  
Notary Public for Mandaluyong City  
Notary Commission No. 0333-12  
Until December 31, 2013  
PTR No. 1626008 1.7.2013 Mandaluyong City  
IBP LRN 07098 1.7.08 Pasig City  
Roll of Attorney No. 42921  
SMC Head Office Complex  
40 San Miguel Avenue, 1550 Mandaluyong City  
MCLE Compliance No. IV-0008477 11.10.12





REPUBLIC OF THE PHILIPPINES)  
MANDALUYONG CITY ) S.S.

### SECRETARY'S CERTIFICATE

I, **JOEL ANGELO C. CRUZ**, of legal age, married, Filipino, with office address at the SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines, after having been duly sworn in accordance with law, do hereby depose and state that:

1. I am the Vice President - General Counsel & Corporate Secretary of **PETRON CORPORATION** (the "Corporation"), a corporation duly organized and registered in accordance with the laws of the Republic of the Philippines with principal office at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. At the regular meeting of the Board of Directors of the Corporation (the "Board") held on **March 24, 2014**, the Board approved the following resolutions:

#### Holding of Annual Stockholders' Meeting

##### Resolution No. 2, S'14

"RESOLVED, That in accordance with the Amended By-Laws of the Corporation (the "By-Laws"), the Board of Directors (the "Board") hereby sets the date of the **2014 Annual Stockholders' Meeting** on **May 20, 2014** at the **Valle Verde Country Club, Pasig City**.

"RESOLVED, FURTHER, That pursuant to the By-Laws, the Board hereby sets **April 8, 2014** as the record date for determining the stockholders entitled to notice and to vote at the **2014 Annual Stockholders' Meeting** and the dates from **April 9 to 18, 2014** as the period for the closing of the books of the Corporation in relation to the record date;

"RESOLVED, FINALLY, That the following agenda for the **2014 Annual Stockholders' Meeting** be, and are hereby, **APPROVED:**

A handwritten signature in blue ink, appearing to be the initials "JC".

- (1) Call to Order
- (2) Report on Attendance and Quorum
- (3) Review and Approval of Minutes of Previous Annual Stockholders' Meeting
- (4) Presentation of Management Report and Submission to Stockholders of Financial Statements for the Year 2013
- (5) Ratification of All Acts of the Board of Directors and Management Since the Previous Annual Stockholders' Meeting
- (6) Appointment of Independent External Auditor
- (7) Election of the Board of Directors for the Ensuing Term
- (8) Other Matters
- (9) Adjournment."

Declaration of Dividend for Common Shares

Resolution No. 4, S'14

"RESOLVED, That there is hereby declared from the unappropriated retained earnings of the Corporation a cash dividend of Php0.05 per share to all common stockholders as of record date April 8, 2014, with a pay-out date of April 23, 2014."

3. At the regular meeting of the Board held on May 6, 2014, the Board approved the following resolution:

Appointment of Independent External Auditor

Resolution No. 6, S'14

"RESOLVED, That the retention of the accounting firm R. G. Manabat & Co., /KPMG as the independent external auditor of Petron Corporation for 2014, be and hereby is, FAVORABLY ENDORSED to the stockholders for approval."



Declaration of Dividend for Preferred Shares

Resolution No. 7, S'14

“RESOLVED, That there is hereby declared from the unappropriated retained earnings of the Corporation a cash dividend of Php 2.382 per share to all preferred shareholders as of record date of May 21, 2014, with a pay-out date of June 5, 2014.”

4. At the annual stockholders' meeting of the Corporation held on May 20, 2014, the stockholders approved the following resolutions:

Appointment of Independent External Auditor

RESOLVED, That the appointment of the accounting firm Manabat Sanagustin & Co., CPAs/KPMG as the independent external auditor of the Corporation for 2014 be, and hereby is, APPROVED.

Election of Directors

RESOLVED, That the following persons are hereby declared as the duly elected directors of the Corporation, to serve for a term of one (1) year or until their successors shall have been duly elected and qualified in accordance with the by-laws of the Company:

Mr. Ramon S. Ang  
 Mr. Eduardo M. Cojuangco, Jr.  
 Mr. Lubin B. Nepomuceno  
 Atty. Estelito P. Mendoza  
 Mr. Jose P. De Jesus  
 Mr. Eric O. Recto  
 Mr. Mirzan Mahathir  
 Mr. Ron W. Haddock  
 Atty. Romela M. Bengzon  
 Ms. Aurora T. Calderon  
 Atty. Virgilio S. Jacinto  
 Ms. Nelly Favis-Villafuerte  
 Ret. Chief Justice Artemio V. Panganiban (independent)  
 Mr. Reynaldo G. David (independent)  
 Mr. Margarito B. Teves (independent)



5. At the organizational meeting of the Board held on **May 20, 2014**, the Board approved the following resolutions:

Appointment of Members to the Executive Committee

Resolution No. 8, S'14

With the appointment of the new directors of the Corporation, the Board hereby appoints the members of the Board Executive Committee as follows:

- |                     |                    |
|---------------------|--------------------|
| Ramon S. Ang        | - Chairman         |
| Lubin B. Nepomuceno | - Member           |
| Aurora T. Calderon  | - Member           |
| Eric O. Recto       | - Alternate Member |
| Virgilio S. Jacinto | - Alternate Member |

Appointment of Members to the Board Audit Committee

Resolution No. 9, S'14

With the appointment of the new directors of the Corporation, the Board hereby appoints the members of the Board Audit Committee as follows:

- |                          |            |
|--------------------------|------------|
| Reynaldo G. David        | - Chairman |
| Lubin B. Nepomuceno      | - Member   |
| Estelito P. Mendoza      | - Member   |
| Artemio V. Panganiban    | - Member   |
| Aurora T. Calderon       | - Member   |
| Ferdinand K. Constantino | - Advisor  |

Appointment of Members to the Board Compensation Committee

Resolution No. 10, S'14

With the appointment of the new directors of the Corporation, the Board hereby appoints the members of the Board Compensation Committee as follows:



Ramon S. Ang	- Chairman
Lubin B. Nepomuceno	- Member
Virgilio S. Jacinto	- Member
Reynaldo G. David	- Member
Aurora T. Calderon	- Member
Ferdinand K. Constantino	- Advisor

### Appointment of Members to the Board Nomination Committee

#### Resolution No. 11, S'14

With the appointment of the new directors of the Corporation, the Board hereby appoints the members of the Board Nomination Committee as follows:

Reynaldo G. David	- Chairman
Estelito P. Mendoza	- Member
Virgilio S. Jacinto	- Member

### Election of Officers

#### Resolution No. 12, S'14

RESOLVED, That the appointment of the following persons as duly designated officers of the Corporation, to serve for a term of one (1) year or until their successors shall have been duly elected and qualified in accordance with the By-Laws of the Corporation:

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

6. At the special meeting of the Board held on July 3, 2014, the Board approved the following resolutions:

Approval of the Further Amendments to the Revised Corporate Governance Manual of the Company

Resolution No. 14, S'14

“RESOLVED, That the revised Corporate Governance Manual of the Company as presented to the Board and endorsed by the Audit Committee of the Company be, and hereby is, approved by the Board.”

Appointment of the Members of the Newly Created Governance Committee

Resolution No. 15, S'14

With the creation of the Governance Committee, the Board hereby appoints the members and secretary thereof as follows:

Margarito B. Teves	- Chairman
Virgilio S. Jacinto	- Member
Nelly Favis-Villafuerte	- Member
Joel Angelo C. Cruz	- Secretary

7. At the regular meeting of the Board held on August 6, 2014, the Board approved the following resolution:

Declaration of Dividend for Preferred Shares

Resolution No. 19, S'14

“RESOLVED, That there is hereby declared from the unappropriated retained earnings of the Corporation a cash dividend of P2.382 per share to all preferred shareholders as of record date of August 22, 2014, with a pay-out date of September 5, 2014.”

8. At the regular meeting of the Board held on November 7, 2014, the Board approved the following resolutions:

Declaration of Dividend for Preferred Shares

Resolution No. 22, S'14

“RESOLVED, That there is hereby declared from the unappropriated retained earnings of the Corporation a cash dividend of Php 2.382 per preferred share issued in 2010 to all shareholders of such shares as follows:

- (a) For the fourth quarter of 2014, a total dividend amount of Php238.2 Million payable to preferred shareholders as of record date November 24, 2014, with a pay-out date of December 5, 2014; and
- (b) For the first quarter of 2015, a total dividend amount of Php238.2 million payable to preferred shareholders as of record date February 18, 2015, with a pay-out date of March 5, 2015.

RESOLVED, FURTHER, That there is hereby declared from the unappropriated retained earnings of the Corporation a cash dividend of P15.75 per Series 2A preferred share and P17.14575 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.”


4

DONE this 8<sup>th</sup> day of January 2015 at Mandaluyong City.

  
**JOEL ANGELO C. CRUZ**  
 VP – General Counsel &  
 Corporate Secretary 

SUBSCRIBED AND SWORN TO before me this JAN 08 2015 at  
 Mandaluyong City, by JOEL ANGELO C. CRUZ in his capacity as the Vice President  
 – General Counsel & Corporate Secretary of PETRON CORPORATION, affiant  
 exhibiting to me his SSS ID with No. 033-83898447 and avowed under penalty of  
 law to the whole truth of the contents of the foregoing Certificate.

Doc. No. 372 ;  
 Page No. 36 ;  
 Book No. III ;  
 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. 07424  
 MCLE Compliance No. IV-0014582/3-25-13