PETRON

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Petron Corporation** (the **"Company"**) **and Subsidiaries**, is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2013 and 2012**, 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.

RAMON S. ANG
Chairman and Chief Executive Officer

LUBIN B. NEPOMUCENO
President

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 24th day of March 2014

PETRON

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this APR 1 4 2014, 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
Ramon S. Ang	Passport No. XX0748364	11 Jul 2011 / DFA Manila
Lubin B. Nepomuceno	Passport No. EB5027219	29 Mar 2012 / DFA Manila
Emmanuel E. Eraña	Passport No. EB1133575	07 Oct 2010 / DFA Manila

Doc. No. 20 ;
Page No. 5 ;
Book No. I ;
Series of 2014

LIAM S. PAGBANGANAN
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0423-14
Until December 31, 2015
Attorney's Roll No. 50213
PTR No. 1942189/1-2-14/Mandaluyong
IBP No. 948024/1-2-14/Bulacan
MCLE Compliance No. IV-0015862/4-8-13

COVER SHEET

S.E.C. Registration Number

PETRON CORPORATION AND SUBSIDIARIES

(Company's Full Name)

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

(Business Address : No. Street Company / Town / Province)

Contact Person

Company Telephone Number

12 31
Month *Day*

AAFS
FORM TYPE

Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011

KPMG

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REPORT OF INDEPENDENT AUDITORS

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

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, 2013 and 2012, 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, 2013, 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.

PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Category A, valid until December 17, 2014

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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2013, 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. 4225135MC
Issued January 2, 2014 at Makati City

March 24, 2014
Makati City, Metro Manila

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

	Note	December 31 2013	2012 December 31 (As restated - Note 3)	January 1 (As restated - Note 3)
ASSETS				
Current Assets				
Cash and cash equivalents	*6, 34, 35*	P50,398	P26,965	P23,823
Financial assets at fair value through profit or loss	*7, 34, 35*	783	186	237
Available-for-sale financial assets	*4, 8, 34, 35*	458	51	-
Trade and other receivables - net	*4, 9, 28, 34, 35*	67,667	57,731	26,605
Inventories	*4, 10*	51,721	49,582	37,763
Other current assets	*15*	12,933	10,750	8,178
		183,960	145,265	96,606
Assets held for sale	*5*	-	588	10
Total Current Assets		183,960	145,853	96,616
Noncurrent Assets				
Available-for-sale financial assets	*4, 8, 34, 35*	457	860	1,036
Property, plant and equipment - net	*4, 12, 37*	141,647	104,111	50,446
Investments in associates	*4, 11*	885	1,641	2,505
Investment property - net	*4, 13*	114	115	794
Deferred tax assets	*4, 27*	162	78	15
Goodwill	*4, 14*	9,386	9,032	-
Other noncurrent assets - net	*4, 15, 34, 35*	20,847	18,643	27,710
Total Noncurrent Assets		173,498	134,480	82,506
		P357,458	P280,333	P179,122
LIABILITIES AND EQUITY				
Current Liabilities				
Short-term loans	*16, 34, 35*	P100,071	P99,735	P40,593
Liabilities for crude oil and petroleum product importation	*34, 35*	38,707	24,960	13,842
Trade and other payables	*17, 28, 34, 35*	29,291	14,867	7,381
Derivative liabilities	*34, 35*	152	245	55
Income tax payable		194	52	78
Current portion of long-term debt - net	*18, 34, 35*	8,155	73	4,124
Total Current Liabilities		176,570	139,932	66,073

Forward

	Note	December 31 2013	2012 December 31 (As restated - Note 3)	2012 January 1 (As restated - Note 3)
Noncurrent Liabilities				
Long-term debt - net of current portion	*18, 34, 35*	**P58,032**	P55,940	P45,744
Retirement benefits liability	*30*	**820**	983	4
Deferred tax liabilities	*27*	**4,605**	3,143	3,017
Asset retirement obligation	*4, 19*	**1,004**	997	1,061
Other noncurrent liabilities	*20, 34, 35*	**4,539**	2,435	740
Total Noncurrent Liabilities		**69,000**	63,498	50,566
Total Liabilities		**245,570**	203,430	116,639
Equity Attributable to Equity Holders of the Parent Company	*21*			
Capital stock		**9,475**	9,475	9,475
Additional paid-in capital		**9,764**	9,764	9,764
Undated subordinated capital securities		**30,546**	-	-
Retained earnings		**42,658**	40,507	40,695
Reserve for retirement plan		**2,242**	10	2,189
Other reserves		**(721)**	(201)	70
Total Equity Attributable to Equity Holders of the Parent Company		**93,964**	59,555	62,193
Non-controlling interests		**17,924**	17,348	290
Total Equity		**111,888**	76,903	62,483
		P357,458	P280,333	P179,122

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Million Pesos, Except Per Share Data)

	Note	2013	2012 As restated (Note 3)	2011 As restated (Note 3)
SALES	*28, 37*	P463,638	P424,795	P273,956
COST OF GOODS SOLD	*22*	440,479	406,798	251,610
GROSS PROFIT		23,159	17,997	22,346
SELLING AND ADMINISTRATIVE EXPENSES	*23*	(11,475)	(10,137)	(7,229)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*26, 37*	(5,462)	(7,508)	(5,124)
INTEREST INCOME	*26, 37*	1,285	1,121	1,380
SHARE IN NET INCOME (LOSSES) OF ASSOCIATES	*11*	110	(11)	(137)
OTHER INCOME (EXPENSES) - Net	*26*	(675)	777	521
		(16,217)	(15,758)	(10,589)
INCOME BEFORE INCOME TAX		6,942	2,239	11,757
INCOME TAX EXPENSE	*27, 36, 37*	1,850	459	2,827
NET INCOME		P5,092	P1,780	P8,930
Attributable to:				
Equity holders of the Parent Company	*32*	P5,247	P1,701	P8,914
Non-controlling interests		(155)	79	16
		P5,092	P1,780	P8,930
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*32*	P0.28	P0.08	P0.82

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Million Pesos)

	Note	2013	2012 As restated (Note 3)	2011 As restated (Note 3)
NET INCOME		P5,092	P1,780	P8,930
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Equity reserve for retirement plan	*30*	3,232	(3,086)	(1,750)
Income tax benefit (expense)		(957)	914	525
		2,275	(2,172)	(1,225)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Exchange differences on translation of foreign operations	*21*	589	(1,214)	(12)
Unrealized fair value gains (losses) on available-for-sale financial assets	*8, 21*	(31)	7	(1)
Income tax benefit		2	3	-
		560	(1,204)	(13)
OTHER COMPREHENSIVE INCOME (LOSS)		2,835	(3,376)	(1,238)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		P7,927	(P1,596)	P7,692
Attributable to:				
Equity holders of the Parent Company		P6,971	(P868)	P7,676
Non-controlling interests		956	(728)	16
		P7,927	(P1,596)	P7,692

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Million Pesos)

		Equity Attributable to Equity Holders of the Parent Company									
					Retained Earnings						
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Appro-priated	Unappro-priated	Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
As of January 1, 2013, as previously reported		P9,475	P9,764	P -	P25,171	P15,226	P -	(P366)	P59,270	P16,868	P76,138
Adjustments due to Philippine Financial Reporting Standards (PFRS) 3 and Philippine Accounting Standards (PAS) 19	3	-	-	-	-	110	10	165	285	480	765
As of January 1, 2013, as restated		9,475	9,764	-	25,171	15,336	10	(201)	59,555	17,348	76,903
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 additions to non-controlling interests and others		-	-	-	-	-	-	(12)	(12)	(380)	(392)
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								
			Additional	Retained Earnings		Reserve for			Non-	
	Note	Capital Stock	Paid-in Capital	Appro-priated	Unappro-priated	Retirement Plan	Other Reserves	Total	controlling Interests	Total Equity
As of January 1, 2012, as previously reported		P9,475	P9,764	P25,171	P14,917	P -	P70	P59,397	P290	P59,687
Adjustment due to PAS 19	3	-	-	-	607	2,189	-	2,796	-	2,796
As of January 1, 2012, as restated		9,475	9,764	25,171	15,524	2,189	70	62,193	290	62,483
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
As of December 31, 2012, as restated		P9,475	P9,764	P25,171	P15,336	P10	(P201)	P59,555	P17,348	P76,903

Forward

		Equity Attributable to Equity Holders of the Parent Company								
			Additional	Retained Earnings		Reserve for			Non-	
	Note	Capital Stock	Paid-in Capital	Appro-priated	Unappro-priated	Retirement Plan	Other Reserves	Total	controlling Interests	Total Equity
As of January 1, 2011, as previously reported		P9,475	P9,764	P15,543	P18,205	P -	P83	P53,070	P274	P53,344
Adjustment due to PAS 19	3	-	-	-	162	3,414	-	3,576	-	3,576
As of January 1, 2011, as restated		9,475	9,764	15,543	18,367	3,414	83	56,646	274	56,920
Unrealized fair value loss on available-for-sale financial assets - net of tax		-	-	-	-	-	(1)	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	-	(12)	(12)	-	(12)
Equity reserve for retirement plan - net of tax		-	-	-	-	(1,225)	-	(1,225)	-	(1,225)
Other comprehensive loss		-	-	-	-	(1,225)	(13)	(1,238)	-	(1,238)
Net income for the year		-	-	-	8,914	-	-	8,914	16	8,930
Total comprehensive income (loss) for the year		-	-	-	8,914	(1,225)	(13)	7,676	16	7,692
Appropriation for capital projects	21	-	-	9,628	(9,628)	-	-	-	-	-
Cash dividends	21	-	-	-	(2,129)	-	-	(2,129)	-	(2,129)
As of December 31, 2011, as restated		P9,475	P9,764	P25,171	P15,524	P2,189	P70	P62,193	P290	P62,483

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Million Pesos)

	Note	2013	2012 As restated (Note 3)	2011 As restated (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P6,942	P2,239	P11,757
Adjustments for:				
Share in net losses (income) of associates	*11*	(110)	11	137
Retirement benefits cost (income)	*30*	323	161	(214)
Interest expense and other financing charges	*26*	5,462	7,508	5,124
Depreciation and amortization	*25*	5,806	5,113	3,657
Interest income	*26*	(1,285)	(1,121)	(1,380)
Unrealized foreign exchange losses (gains) - net		3,003	(556)	123
Other gain		(1,153)	(1,116)	(78)
Operating income before working capital changes		18,988	12,239	19,126
Changes in noncash assets, certain current liabilities and others	*33*	22,410	(3,828)	(13,639)
Interest paid		(8,370)	(7,127)	(5,309)
Income taxes paid		(608)	(616)	(752)
Interest received		1,332	1,186	1,364
Net cash flows provided by operating activities		33,752	1,854	790
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	*12*	(51,585)	(41,848)	(21,342)
Proceeds from sale of property, plant and equipment		15,185	703	2,272
Proceeds from sale of an investment property previously classified as "held for sale"	*13*	1,167	-	96
Decrease (increase) in:				
Other receivables		(4,880)	(15,498)	(637)
Other noncurrent assets		(3,018)	11,803	2,232
Reductions from (additions to):				
Financial assets at fair value through profit or loss		(626)	29	(9)
Investments		-	(14)	(5,374)
Available-for-sale financial assets		(4)	125	125
Acquisition of subsidiaries, net of cash and cash equivalents acquired		432	(17,843)	-
Acquisition of non-controlling interest		-	(1,138)	-
Net cash flows used in investing activities		(43,329)	(63,681)	(22,637)

Forward

	Note	2013	2012 As restated (Note 3)	2011 As restated (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		P349,212	P335,351	P134,354
Payments of:				
Loans		(345,180)	(283,459)	(131,148)
Cash dividends and distributions	21	(4,098)	(2,436)	(1,886)
Proceeds from issuance of undated subordinated capital securities		30,546	-	-
Proceeds from issuance of a subsidiary's preferred share to non-controlling interests		-	14,216	-
Increase in other noncurrent liabilities		2,059	1,735	338
Net cash flows provided by financing activities		32,539	65,407	1,658
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		471	(438)	28
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		23,433	3,142	(20,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		26,965	23,823	43,984
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	50,398	P26,965	P23,823

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 associates 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, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and kerosene 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. To broaden its market base and further strengthen its leadership in the LPG business, Petron launched a second LPG brand called "Fiesta Gas" in 2008.

Petron operates a lube oil blending plant at Pandacan Oil Terminal, where it manufactures lubes and greases. These are also sold through Petron's service stations and sales centers.

In July 2008, a subsidiary completed the construction of a Fuel Additives Blending facility at the Subic Bay Freeport. This plant, which started commercial operations in October 2008, serves the needs of Innospec Limited, a leading global fuel additive company, in the Asia-Pacific region.

Petron is expanding its non-fuel businesses by partnering with major fast-food chains, coffee shops, and other consumer services companies to give its customers a one-stop full service experience. Petron continuously puts up additional service stations in strategic locations. In addition, Micro-Filling Stations (MFS) are being built across the country starting 2009.

In line with Petron's efforts to increase its presence in the regional market, it exports various petroleum and non-fuel products to Asia-Pacific countries such as South Korea, Taiwan, China, Singapore, Cambodia, Malaysia, Indonesia, Hong Kong and Thailand.

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). SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands and owned by funds managed by the Ashmore Group, was Petron's parent company prior to 2010.

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, SEA Refinery Corporation (SRC). The option may be exercised by SMC within a period of two years from December 24, 2008.

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

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

On August 31, 2010, SMC purchased additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. The 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 BV pursuant to the Option Agreement. With the exercise of the option, SMC became beneficial owner of approximately 68.26% 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 Petron to various foreign institutional investors through the facilities of the PSE. On December 5, 2012, PCERP further sold 195,000,000 of its common shares in Petron. As of December 31, 2013, Petron's public float stood at 16.61%.

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

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were authorized for issue by the BOD on March 24, 2014.

Basis of Measurement

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

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

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are 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
	2013	2012	
Overseas Ventures Insurance Corporation (Ovincor)	**100.00**	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	**100.00**	100.00	Philippines
Petron Freeport Corporation (PFC)	**100.00**	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	**100.00**	100.00	Singapore
Petron Marketing Corporation (PMC)	**100.00**	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	**40.00**	40.00	Philippines
Limay Energen Corporation (LEC)	**100.00**	100.00	Philippines
Petron Global Limited (PGL)	**100.00**[(a)]	100.00[(a)]	British Virgin Islands
Petron Finance (Labuan) Limited	**100.00**	100.00	Malaysia
Petron Oil and Gas Mauritius Ltd. and Subsidiaries (Mauritius)	**100.00**	100.00	Mauritius
Petrochemical Asia (HK) Limited (PAHL) and Subsidiaries	**45.85**	45.85[(b)]	Hong Kong

[(a)] *Ownership represents 100% of PGL's common shares.*

[(b)] *In 2012, investment in PAHL was accounted for as an associate (Notes 11 and 14f).*

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

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

On May 13, 2010, the Parent Company incorporated PSTPL in Singapore. PSTPL has an initial capitalization of Singapore Dollar 1 million and handles crude, ethanol, catalysts and additives procurement, crude vessel chartering and commodity risk management. PSTPL started commercial operations on July 19, 2010.

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).

On March 30, 2012, the Parent Company's indirect offshore subsidiary through Mauritius, Petron Oil and Gas International Sdn. Bhd. (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) (POGI, EMB, EMMSB, and EMBSB are collectively hereinafter referred to as "Petron Malaysia"). Following the completion of the Unconditional Mandatory Take-Over Offer required by Malaysian laws to be undertaken by POGI, POGI's interest in EMB increased to 73.4%. EMB, EMMSB and EMBSB were later renamed Petron Malaysia Refining & Marketing Bhd (PMRMB), Petron Fuel International Sdn Bhd (PFISB) and Petron Oil (M) Sdn Bhd (POMSB), respectively (Note 14).

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods 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 FRSC approved the adoption of a number of new or revised standards and amendments to standards as part of PFRS.

Adopted Effective 2013

The Group has adopted the following PFRS effective January 1, 2013 and accordingly, changed its accounting policies in the following areas:

- Presentation of Items of Other Comprehensive Income *(Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future, if certain conditions are met, from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the consolidated statements of comprehensive income to consolidated statements of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard.

  As a result of the adoption of the amendments to PAS 1, the Group has modified the presentation of items comprising other comprehensive income in the consolidated statements of comprehensive income. Items that may be reclassified to profit or loss subsequently are presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position and performance. Comparative information has been re-presented accordingly.

- Disclosures: Offsetting Financial Assets and Financial Liabilities *(Amendments to PFRS 7, Financial Instruments: Disclosures).* The amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position.

The adoption of these amendments did not have an effect on the consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements,* introduces a new approach in determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it has power over an investee; (b) it is exposed or has rights to variable returns from its involvement with that investee; and (c) it has the ability to affect those returns through its power over that investee. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements,* and Philippine Interpretation Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities.*

  As a result of the adoption of PFRS 10, the Group reassessed control over its investees based on the new control model effective January 1, 2013. The reassessment resulted in changes in consolidation conclusion and in the current accounting for an investee (Notes 11 and 14f).

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form. The new standard: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) eliminates the option of using the equity method or proportionate consolidation for jointly controlled entities that are now called joint ventures, and only requires the use of equity method. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures,* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers.*

  The adoption of the new standard did not have a significant effect on the consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. The new standard provides information that enables users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) the effects of those interests on the entity's financial position, financial performance and cash flows.

  As a result of the adoption of PFRS 12, the Group has expanded the disclosures on its interests in other entities (Notes 11 and 14).

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to PFRS 10, PFRS 11, and PFRS 12).* The amendments simplify the process of adopting PFRS 10, PFRS 11, and PFRS 12 and provide a relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the consolidated financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees.

The Group has applied the transitional provision of the amendments to PFRS 10, PFRS 11 and PFRS 12.

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  The adoption of the new standard did not have a significant effect on the measurement of the Group's assets and liabilities. Additional disclosures are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

- PAS 19, *Employee Benefits* (Amended 2011). The amendments include the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change removes the corridor method and eliminates the ability of entities to recognize all changes in the defined benefit retirement obligation and in plan assets in profit or loss; and (b) interest income on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit retirement obligation.

  As a result of the adoption of the amendments to PAS 19, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit retirement plan. Actuarial gains and losses are recognized immediately in other comprehensive income and the corridor method was eliminated. Also, the interest income on plan assets recognized in profit or loss is now calculated based on the rate used to discount the defined benefit retirement obligation.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

  The adoption of these amendments did not have an effect on the consolidated financial statements.

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations.

  - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1).* The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third consolidated statement of financial position (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required.

As a result of the adoption of the amendments to PAS 1, the Group has not included comparative information in the notes to the consolidated financial statements in respect of the opening consolidated statement of financial position as of January 1, 2012. The amendments only affect presentation and have no impact on the consolidated financial statements.

- Presentation of the Opening Statement of Financial Position and Related Notes *(Amendments to PAS 1).* The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in the consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to the additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different.

  As a result of the adoption of the amendments to PAS 1, the Group has not included comparative information in the notes to the consolidated financial statements in respect of the opening consolidated statement of financial position as of January 1, 2012. The amendments only affect presentation and have no impact on the consolidated financial statements.

- Classification of Servicing Equipment *(Amendments to PAS 16, Property, Plant and Equipment).* The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*.

  The adoption of these standards did not have a significant effect on the consolidated financial statements.

- Income Tax Consequences of Distributions *(Amendments to PAS 32, Financial Instruments Presentation).* The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. The amendments remove the perceived inconsistency between PAS 32 and PAS 12. Before the amendments, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments*.

The adoption of these amendments did not have an effect on the consolidated financial statements.

- Segment Assets and Liabilities *(Amendments to PAS 34)*. This is amended to align the disclosure requirements for segment assets and segment liabilities in the interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment.

  The adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the new or revised standards and amendments to standards were included in the consolidated financial statements, where applicable.

New or Revised Standards and Amendments to Standards Not Yet Adopted

A number of new or revised standards and amendments to standards are effective for annual periods beginning on or after January 1, 2014, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Recoverable Amount Disclosures for Non-financial Assets *(Amendments to PAS 36, Impairment of Assets)*. The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit); and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount 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. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32)*. The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.

- Defined Benefit Plans: Employee Contributions *(Amendments to PAS 19)*. 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 retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Group does not plan to adopt these amendments early.

- PFRS 9, *Financial Instruments (2009, 2010 and 2013)*. PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. PFRS 9 (2013) introduces the following amendments: (a) a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the consolidated financial statements; (b) changes to address the so-called 'own credit' issue that were already included in PFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and (c) removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for the companies to make the transition to the new requirements. The IASB is currently discussing some limited amendments to the classification and measurement requirements and the expected credit loss impairment model to be included. Once the deliberations are complete, the IASB expects to publish a final version of the standard that will include all of the phases: (a) Classification and Measurement, (b) Impairment, and (c) Hedge Accounting. That version of the standard will include a new mandatory effective date. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on the classification and measurement of financial liabilities. The Group does not plan to adopt this standard early.

<u>Restatements of Prior Year Financial Statements</u>

The following table summarizes the impact of the adoption of amended PAS 19 (Note 30) and the finalization of the purchase price allocation on the acquisition of Petron Malaysia in 2012 (Note 14).

January 1, 2011	As Previously Reported	Effect of Restatement due to PAS 19	**As Restated**
Statement of Changes in Equity			
Retained earnings	P33,748	P162	**P33,910**
Reserve for retirement plan	-	3,414	**3,414**

As of January 1, 2012	As Previously Reported	Effect of Restatement due to PAS 19	As Restated
Statement of Financial Position			
Other noncurrent assets - net	P24,383	P3,327	**P27,710**
Retirement benefits liability	671	(667)	**4**
Deferred tax liabilities	1,819	1,198	**3,017**
Retained earnings	40,088	607	**40,695**
Reserve for retirement plan	-	2,189	**2,189**
For the year ended December 31, 2011 Statements of Income and Comprehensive Income			
Selling and administrative expenses	(7,865)	636	**(7,229)**
Income tax expense	2,636	191	**2,827**
Overall impact on net income	8,485	445	**8,930**
Equity reserve for retirement plan	-	(1,750)	**(1,750)**
Income tax benefit	-	525	**525**
Overall impact on total comprehensive income	P8,472	(P780)	**P7,692**

		Adjustments		
December 31, 2012	As Previously Reported	Effect of Restatement due to PAS 19	Effect of Restatement due to PFRS 3 (Note 14)	**As Restated**
Statement of Financial Position				
Property, plant and equipment - net	P102,140	P -	P1,971	**P104,111**
Goodwill	10,261	-	(1,229)	**9,032**
Other noncurrent assets - net	18,252	391	-	**18,643**
Retirement benefits liability	713	270	-	**983**
Deferred tax liabilities	3,045	52	46	**3,143**
Retained earnings	40,397	110	-	**40,507**
Reserve for retirement plan	-	10	-	**10**
Other reserves	(366)	-	165	**(201)**
Non-controlling interests	16,868	(51)	531	**17,348**
For the year ended December 31, 2012 Statements of Income and Comprehensive Income				
Selling and administrative expenses	(9,426)	(711)	-	**(10,137)**
Income tax expense	673	(214)	-	**459**
Overall impact on net income	2,277	(497)	-	**1,780**
Equity reserve for retirement plan	-	(3,086)	-	**(3,086)**
Income tax benefit	-	914	-	**914**
Overall impact on total comprehensive income	P1,073	(P2,669)	P -	**(P1,596)**

Effect on the Consolidated Statement of Cash Flows for the Period Ended December 31, 2012 and 2011. There are no material differences between the reported and the restated consolidated statements of cash flows except for the effects of noncash expense and the restatement of income before income tax as shown above.

The impact of the adoption of PAS 19 for the current year is as follows: increase in retirement benefits assets by P3,069; increase in deferred tax liability by P908; increase in increase in other comprehensive income by P2,275; increase in retirement expense by P163 and decrease in income tax expense by P49.

The effects on both basic and diluted earnings per share are as follows:

	December 31, 2013	December 31, 2012	December 31, 2011
Increase (decrease) in basic/diluted earnings per share	(P0.01)	(P0.05)	P0.04

Certain accounts in the 2012 and 2011 statements of income have been reclassified to conform with the current year's presentation, with respect to the realized portion of the Group's commodity hedging transactions amounting to P822 and P784 in 2012 and 2011, respectively. The reclassification did not have any impact on the consolidated statements of financial position and consolidated net income or total consolidated comprehensive income.

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 as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Unrealized gains and losses from changes in fair value of forward currency contracts 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 (Note 7).

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 (Notes 6, 9, 15 and 28).

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, 2013 and 2012.

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 (Note 8).

Financial Liabilities

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

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

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

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest 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 (Notes 16, 17, 18 and 20).

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 and Hedging

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.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in profit or loss. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if: (a) the hedging instrument expired, sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as fair value hedges as of December 31, 2013 and 2012.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2013 and 2012.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in equity is transferred to and recognized in profit or loss.

The Group has no hedge of a net investment in a foreign operation as of December 31, 2013 and 2012.

For derivatives that do not qualify for hedge accounting, 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 as 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 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 at each reporting date.

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 and net realizable value. 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 materials and supplies, net realizable value is the current replacement cost.

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.

Investments in Associates
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 investments in associates 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 properties 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 - 7
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, 2013 and 2012, 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 to sell and value in use. The fair value less costs to sell 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 returns, 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 investment property is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

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.

Retirement and Other Employee Benefit Costs

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

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

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

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

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

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

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

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

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

<u>Foreign Currency</u>

Foreign Currency Translations

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

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

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

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

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

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

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. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

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, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Operating Segments

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

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

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

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

Rent income recognized in the consolidated statements of income amounted to P1,155, P977, P431 in 2013, 2012 and 2011, respectively.

Rent expense recognized in the consolidated statements of income amounted to P1,149, P829, P553 in 2013, 2012 and 2011, 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.

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 2013, 2012 and 2011 the Group opted to continue claiming itemized standard deductions except for Petrogen and Las Lucas Construction and Development Corporation (LLCDC), a subsidiary of NVRC, as it 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 P3, P13 and P75 in 2013, 2012 and 2011, respectively (Notes 9 and 23). Receivables written-off amounted to P21 in 2013 and P1 in 2012 (Note 9).

The carrying value of receivables, amounted to P67,667 and P57,731 as of December 31, 2013 and 2012, 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 P51,721 and P49,582 as at the end of 2013 and 2012, 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.

In 2013, the Group recognized an inventory write-down amounting to P702 (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 2013, the Group provided an additional allowance amounting to P33 (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 P60,592 and P55,096 as of December 31, 2013 and 2012, respectively (Notes 12, 13 and 15). Property, plant and equipment, net of accumulated depreciation and amortization amounted to P141,647 and P104,111 as of December 31, 2013 and 2012, respectively (Note 12). Investment property, net of accumulated depreciation amounted to P114 and P115 as of December 31, 2013 and 2012, respectively (Note 13). Intangible assets with finite useful lives, net of accumulated amortization, amounted to P322 and P411 as of December 31, 2013 and 2012 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 2013 and 2012.

The carrying amount of AFS financial assets amounted to P915 and P911 as of December 31, 2013 and 2012, 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 and P142 as of December 31, 2013 and 2012, respectively (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 3% terminal growth rate and 8% discount rate (Note 14).

No impairment losses were recognized in 2013 and 2012.

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 P9,386 and 9,032 as at December 31, 2013 and 2012, 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 P162 and P78 as of December 31, 2013 and 2012, respectively (Note 27).

Impairment of Other Non-financial Assets. PFRS requires that an impairment review be performed on investments in associates, 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 2013, 2012 and 2011.

The aggregate carrying amount of investments in associates, property, plant and equipment, intangible assets with finite useful lives and investment property amounted to P142,968 and P106,278 as of December 31, 2013 and 2012, 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 3.94% to 9.42% 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. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of the obligation cannot be determined and assessed to be insignificant. Thus, the ARO amounting to P1,004 and P997 as of December 31, 2013 and 2012, respectively, covers only the Group's leased service stations, depots, blending plant, and franchised store and locator in Carmen (Note 19).

5. Assets Held for Sale

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 and comprehensive income in 2013.

6. Cash and Cash Equivalents

This account consists of:

	Note	**2013**	2012
Cash on hand		**P4,042**	P4,932
Cash in banks		**6,747**	5,788
Short-term placements		**39,609**	16,245
	34, 35	**P50,398**	P26,965

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 5.00% in 2013 and 2012.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Note	**2013**	2012
Proprietary membership shares	*34, 35*	**P117**	P145
Marketable equity securities	*34, 35*	-	2
Derivative assets	*34, 35*	**666**	39
		P783	P186

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 2013, 2012 and 2011 amounted to (P29), (P22) and P1, respectively (Note 26).

8. Available-for-Sale Financial Assets

This account consists of:

	2013	2012
Government securities	**P757**	P804
Other debt securities	**158**	107
	915	911
Less: current portion	**458**	51
	P457	P860

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 2013 and 2012 (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 8.250% to 8.875%.

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

	Note	2013	2012
Due in one year or less		**P458**	P51
Due after one year through five years		**457**	860
	34, 35	**P915**	P911

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

	2013	2012
Balance at beginning of year	**P911**	P1,036
Additions	**56**	-
Disposals	**(50)**	(45)
Amortization of premium	**(36)**	(19)
Fair value gain (loss)	**(29)**	10
Currency translation adjustment	**63**	(71)
Balance at end of year	**P915**	P911

9. Trade and Other Receivables

This account consists of:

	Note	**2013**	2012
Trade	*34*	**P26,616**	P22,276
Related parties - trade	*28, 34*	**3,158**	1,949
Allowance for impairment loss on trade receivables		**(972)**	(1,073)
		28,802	23,152
Government		**27,856**	27,784
Related parties - non-trade	*28*	**5,536**	4,763
Others		**5,767**	2,327
Allowance for impairment loss on non-trade receivables		**(294)**	(295)
		38,865	34,579
	34, 35	**P67,667**	P57,731

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

Government receivables pertain to duty and tax claims, such as 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 P6,296 and P14,788 as of December 31, 2013 and 2012, 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 significantly 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 2013 and 2012 is shown below:

	Note	**2013**	2012
Balance at beginning of year		**P1,371**	P1,374
Additions	*23*	**3**	13
Write off		**(21)**	(1)
Interest income on accretion		**(2)**	(5)
Acquisition of subsidiaries		**-**	46
Currency translation adjustment		**-**	(2)
Reversals		**(73)**	(54)
Balance at end of year		**1,278**	1,371
Less noncurrent portion for long-term receivables	*15*	**12**	3
		P1,266	P1,368

As of December 31, 2013 and 2012, the age of past due but not impaired trade accounts receivable (TAR) is as follows (Note 34):

	Past Due but not Impaired				
	Within 30 days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
December 31, 2013					
Reseller	**P240**	**P49**	**P8**	**P12**	**P309**
Lubes	**-**	**8**	**3**	**1**	**12**
Gasul	**6**	**33**	**2**	**1**	**42**
Industrial	**301**	**1,975**	**1,260**	**1,014**	**4,550**
Others	**103**	**76**	**12**	**110**	**301**
	P650	**P2,141**	**P1,285**	**P1,138**	**P5,214**
December 31, 2012					
Reseller	P115	P7	P2	P17	P141
Lubes	1	6	3	-	10
Gasul	14	35	11	32	92
Industrial	40	60	372	207	679
Others	128	9	418	289	844
	P298	P117	P806	P545	P1,766

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

10. Inventories

This account consists of:

	2013	2012
Crude oil and others (2013 - at NRV; 2012 - at cost)	**P25,509**	P22,182
Petroleum (2013 - at NRV; 2012 - at cost)	**24,596**	25,955
TBA products, materials and supplies:		
Materials and supplies - at NRV	**1,584**	1,418
TBA - at cost	**32**	27
	P51,721	P49,582

The cost of these inventories amounted to P52,835 and P49,969 as of December 31, 2013 and 2012, 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 decreased by P1,398 and P921 as of December 31, 2013 and 2012, respectively.

Research and development costs (Note 23) on these products constituted the expenses incurred for internal projects in 2013 and 2012.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P432,779, P398,102 and P244,937 in 2013, 2012 and 2011, respectively (Note 22).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2013 and 2012 follow:

	2013	2012
Balance at beginning of year	**P387**	P387
Provisions due to:		
Write-downs	**702**	-
Obsolescence	**33**	-
Reversals	**(8)**	-
	P1,114	P387

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

11. Investments in Associates

This account consists of:

	2013	2012
Acquisition Cost		
Balance at beginning of year	**P1,943**	P2,796
Additions	**-**	507
Reclassifications	**(1,238)**	(1,360)
Balance at end of year	**705**	1,943
Share in Net Income (Losses)		
Balance at beginning of year	**(302)**	(291)
Share in net income (loss) during the year	**110**	(11)
Reclassifications	**372**	-
Balance at end of year	**180**	(302)
	P885	P1,641

Investments in associates pertain to investments in the following entities:

Petrochemical Asia (HK) Limited (PAHL)
PAHL is a company incorporated in Hong Kong in March 2008. As of December 31, 2012, it has an authorized capital of Hong Kong Dollar (HK$) 749.22 million for a total of 823,000,000 shares, consisting of 585,000,000 ordinary A shares at HK$1 par value per share and 238,000,000 ordinary B shares at HK$0.69 par value per share. Of this, 692,795,031 shares are outstanding. PAHL indirectly owns, among other assets, a 160,000 metric ton-polypropylene production plant in Mariveles, Bataan.

On March 13, 2010, the Parent Company acquired 182,000,000 ordinary A shares or 40% of the outstanding shares of PAHL from Vantage Stride (Mauritius) Limited ("Vantage Stride").

On June 23, 2010, PAHL issued 102,142,858 new ordinary B shares to another investor, which reduced the Parent Company's ownership in PAHL to 33%.

On December 31, 2012, PAHL issued to the Parent Company 135,652,173 ordinary B shares which increased the Parent Company's ownership in PAHL to 45.85%.

PAHL commenced operation in the first quarter of 2011.

As of December 31, 2012, cost of investment in PAHL amounted to P1,238.

As a result of the adoption of PFRS 10 starting January 1, 2013, the Group reassessed whether it has control over PAHL. Based on management's assessment, by virtue of the extent of the Group's participation in the BOD and management of PAHL, the Group has: (i) power over PAHL; (ii) it is exposed and has rights to variable returns from its involvement with PAHL; and (iii) it has the ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, as allowed under the transitional provisions of PFRS 10, the Group applied acquisition accounting on PAHL beginning January 1, 2013 (Note 14f) as it is impracticable to apply retrospectively from the acquisition date.

LEC

On August 3, 2010, the Parent Company together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 was subscribed, of which P213 was paid up. The Group then owned 40% of LEC, while Two San Isidro owned the remaining 60%.

In 2011, the Parent Company infused P1,147 to LEC to fully pay its 40% equity share.

In January 2012, LEC became wholly owned by the Parent Company when it purchased the 60% equity share of Two San Isidro in LEC. Consequently, LEC was consolidated from January 2012 (Note 14d).

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.

As of December 31, 2013 and 2012, the cost of investment in MNHPI amounted to P705.

Following are the unaudited condensed financial information of MNHPI in 2013 and PAHL and MNHPI in 2012:

	December 31, 2013	December 31, 2012	
	MNHPI	MNHPI	PAHL
Country of incorporation	**Philippines**	Philippines	Hong Kong
Percentage of ownership	**35%**	35%	45.85%
Current assets	**P1,297**	P2,519	P2,414
Noncurrent assets	**6,950**	4,218	3,130
Current liabilities	**(1,198)**	(998)	(2,393)
Noncurrent liabilities	**(5,544)**	(4,573)	(1,802)
Net assets	**P1,505**	P1,166	P1,349
Sales	**P1,677**	P1,412	P4,897
Net income (loss)	**P291**	P156	(P130)
Other comprehensive income	**-**	-	20
Total comprehensive income (loss)	**P291**	P156	(P110)
Share in net income (loss)	**P110**	P58	(P69)
Share in net assets	**P527**	P408	P619
Goodwill	**358**	367	247
Carrying amount of investments in associates	**P885**	P775	P866

12. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost							
January 1, 2012	P14,175	P37,810	P6,069	P3,070	P5,525	P18,168	P84,817
Additions	57	57	61	316	461	40,896	41,848
Disposals/reclassifications/ acquisition of subsidiaries, as restated (Note 14)	8,562	11,356	8,446	793	5,932	(1,463)	33,626
Currency translation adjustment	(337)	(480)	(300)	(37)	(164)	(10)	(1,328)
December 31, 2012, as restated (Note 14)	22,457	48,743	14,276	4,142	11,754	57,591	158,963
Additions	869	60	831	88	243	49,494	51,585
Disposals/reclassifications/ acquisition of subsidiaries	4,081	771	510	(124)	265	(14,741)	(9,238)
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**
Accumulated Depreciation and Amortization							
January 1, 2012	8,229	18,578	4,222	1,880	1,462	-	34,371
Additions	1,024	2,336	977	296	57	-	4,690
Disposals/reclassifications	4,271	7,510	4,131	601	(4)	-	16,509
Currency translation adjustment	(181)	(329)	(178)	(30)	-	-	(718)
December 31, 2012	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**
Net Book Value							
December 31, 2012	P9,114	P20,648	P5,124	P1,395	P10,239	P57,591	P104,111
December 31, 2013	**P12,059**	**P19,362**	**P5,996**	**P1,260**	**P10,702**	**P92,268**	**P141,647**

Interest capitalized in 2013 and 2012 amounted to P3,529 and P886, respectively. Capitalization rate used for borrowings was at 6.22% and 5.71% in 2013 and 2012, respectively (Note 18).

No impairment loss was required to be recognized in 2013 and 2012.

Capital Commitments

As of December 31, 2013, the Group has outstanding commitments to acquire property, plant and equipment amounting to P4,698.

13. Investment Property

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

	Note	Land	Office Units	Total
Cost				
January 1, 2012		P100	P963	P1,063
Reclassifications	*5*	-	(938)	(938)
December 31, 2012 and 2013		**100**	**25**	**125**
Accumulated Depreciation				
January 1, 2012		-	269	269
Depreciation during the year		-	91	91
Reclassifications	*5*	-	(350)	(350)
December 31, 2012		-	10	10
Depreciation during the year		-	1	1
December 31, 2013		**-**	**11**	**11**
Net Book Value				
December 31, 2012		P100	P15	P115
December 31, 2013		**P100**	**P14**	**P114**

The Group's investment property consists of office units located at Petron Mega Plaza (classified as "Assets held for sale" in 2012) (Note 5), property located in Tagaytay and parcels of land in various locations. Petron Mega Plaza was sold during the second quarter of 2013 (Note 5).

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

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2013 and 2012, the aggregate fair market values of the properties amounted to P134 and P120, respectively, determined by independent appraisers, 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.

Rent income earned from office units amounted to P40, P85 and P58 in 2013, 2012 and 2011, respectively.

14. Acquisition of Subsidiaries and Goodwill

The following are the developments relating to the Parent Company's investments in subsidiaries in 2013 and 2012:

a. *PGL*

On February 24, 2012, Petron acquired PGL, a company incorporated under the laws of the British Virgin Islands, and subscribed to an initial capital of 1,000 common shares with par value of US$1. Subsequent to this, PGL allotted additional (i) 20,000,000, (ii) 11,170,180, (iii) 10,874,028 and (iv) 7,576,968 common shares to Petron with par value of US$1 on March 9, 2012, September 13, 2012, March 13, 2013, and September 12, 2013, respectively.

Other than the common shares, PGL issued 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 on March 14, 2012 to a third party investor.

There was no goodwill on the acquisition of PGL in 2012.

b. *Petron Oil and Gas International Sdn. Bhd. (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.

In 2012, the Group used provisionary fair values of the identifiable net assets in calculating the goodwill as at the acquisition date. In 2013, the Group has completed its purchase price allocation exercise. As a result, the Group restated the amounts of net assets acquired, non-controlling interest and goodwill recognized in 2012, in accordance with PFRS 3.

The following summarizes the final recognized amounts of assets acquired and liabilities assumed as of acquisition date:

	(As restated)
Assets	
Cash and cash equivalents	**P5,633**
Trade and other receivables - net	**12,811**
Inventories	**13,160**
Prepaid expenses and other current assets	**314**
Property, plant and equipment - net	**17,199**
Deferred tax assets	**28**
Other noncurrent assets - net	**6,273**
Liabilities	
Short-term loans	**(4,195)**
Liabilities for crude oil and petroleum product importation	**(16,360)**
Trade and other payables	**(1,934)**
Income tax payable	**(64)**
Long-term debt including current portion	**(10,123)**
Deferred tax liabilities	**(1,164)**
Other noncurrent liabilities	**(700)**
Total identifiable net assets at fair value	**P20,878**

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

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

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

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

On April 23, 2012, the Companies Commission of Malaysia (CCM) approved the change of name of EMMSB to Petron Fuel International Sdn Bhd and of EMBSB to Petron Oil (M) Sdn Bhd. Thereafter, on July 11, 2012, the CCM approved the change of name of EMB to Petron Malaysia Refining & Marketing Bhd.

c. *Parkville Estates and Development Corp. (PEDC)*

In 2012, NVRC, a subsidiary, acquired 100% of PEDC.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Property, plant and equipment - net	**P117**
Trade and other payables	**(5)**
Total identifiable net assets at fair value	**P112**

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

Total cash consideration transferred	**P132**
Total identifiable net assets at fair value	**(112)**
Goodwill	**P20**

There was no adjustment on net assets acquired and goodwill upon finalization of the purchased price allocation exercise in 2013.

d. *LEC*

In January 2012, the Parent Company acquired from Two San Isidro - SIAI Assets, Inc. the latter's shares in LEC. Consequently, LEC was consolidated from January 2012.

On June 29, 2012, the SEC approved the decrease of capital stock of LEC from P3,400 divided into 34,000,000 shares with par value of P100.00 each to P1 divided into 10,000 shares with par value of P100.00 each.

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.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Assets	
Cash and cash equivalents	**P3,514**
Trade and other receivables - net	**2**
Prepaid expenses and other current assets	**39**
Other noncurrent assets - net	**35**
Liabilities	
Trade and other payables	**(154)**
Total identifiable net assets at fair value	**P3,436**

The fair value of the trade and other receivables amounts to P2. None of the receivables has been impaired and it is expected that the full amount can be collected.

Total identifiable net assets at fair value is equal to the consideration of the purchase made by the Parent Company.

e. *Mariveles Landco Corporation (MLC)*

On July 26, 2012, NVRC entered into an agreement for the acquisition of 60% of the outstanding capital stock of MLC for P28.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Assets	
Trade and other receivables - net	**P10**
Prepaid expenses and other current assets	**2**
Property and equipment - net	**64**
Liabilities	
Trade and other payables	**(58)**
Long-term debt	**(36)**
Total identifiable net liabilities at fair value	**(P18)**

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

Total cash consideration and liability assumed	**P28**
Non-controlling interest measured at proportionate interest in identifiable net liabilities	**(7)**
Total identifiable net liabilities at fair value	**18**
Goodwill	**P39**

There was no adjustment on net assets acquired and goodwill upon finalization of the purchased price allocation exercise in 2013.

f. *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 from the beginning of the current period.

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

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

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

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

g. *South Luzon Prime Holdings Inc. (SLPHI)*

On April 5, 2013, NVRC acquired 100% interest in SLPHI, a domestic company engaged in real estate development business. The acquisition is considered as an asset deal.

h. *MRGVeloso Holdings Inc. (MHI)*

On June 13, 2013, NVRC acquired 100% interest in MHI, a domestic company engaged in real estate development business. The acquisition is considered as an asset deal.

i. *Abreco Realty Corp. (ARC)*

On August 23, 2013, NVRC acquired 100% interest in ARC, a domestic company engaged in real estate development business. The acquisition is considered as an asset deal.

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

	2013	2012 (As restated - Note 3)
Balance at beginning of year	**P9,032**	P -
Additions	**298**	9,416
Translation adjustments	**56**	(384)
Balance at end of year	**P9,386**	9,032

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% and discount rate of 8%. The terminal growth rate is determined based on projected annual gross domestic product (GDP) growth (at constant prices) for four (4) years. 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 is mostly contributed by growth in both retail and commercial segments. Retail sales refer to sales of petroleum products through petrol stations. The forecasted sales volume growth is estimated to come from: (i) rebranding of existing petrol stations; (ii) new petrol stations approximately 30 to 40 stations per year; and (iii) implementation of customer loyalty program. The forecasted growth in the commercial sales is mostly attributed to the expansion of corporate customers portfolio and new commercial customers.

- *Selling Price and Improvement in the Gross Profit Margin.* Management has projected an improvement in selling price in 2014, and thereafter, it is projected to remain constant during the forecast period. Management also expects improvement in gross profit margin to be achieved through better crude oil purchasing policy.

Based on the VIU, goodwill is not impaired as of December 31, 2013.

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, 2013				December 31, 2012		
	NVRC	PMRMB	PAHL	PGL	NVRC	PMRMB	PGL
Non-controlling interests percentage	60.00%	26.60%	54.15%	0.00%	60.00%	26.60%	0.00%
Carrying amount of non-controlling interest	P338	P3,778	P727	P12,931	P314	P4,073	P13,837
Current assets	P190	P22,095	P1,493	P6	P302	P22,514	P128
Noncurrent assets	4,744	15,574	3,253	15,538	4,462	14,687	14,368
Current liabilities	(3,877)	(24,664)	(3,276)	-	(3,473)	(22,945)	-
Noncurrent liabilities	(21)	(1,378)	(12)	-	(296)	(1,430)	-
Net assets	P1,036	P11,627	P1,458	P15,544	P995	P12,826	P14,496
Net income (loss) attributable to non-controlling interests	P24	(P235)	P56	P -	P22	P57	P -
Other comprehensive income (loss) attributable to non-controlling interests	P -	P43	P -	P -	P -	(P52)	P -
Sales	P560	P150,057	P4,640	P -	P384	P118,108	P -
Net income (loss)	40	(866)	104	-	37	211	-
Other comprehensive income	-	160	8	-	-	-	-
Total comprehensive income (loss)	P40	(P706)	P112	P -	P37	P211	P -
Cash flows from operating activities	(P103)	P3,228	P302	P -	P27	P385	P -
Cash flows from investing activities	389	(2,051)	(166)	-	54	(900)	(14,368)
Cash flows from financial activities	(324)	(383)	(78)	(133)	(68)	672	14,496
Effects of exchange rate changes on cash and cash equivalents	-	-	(30)	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(P38)	P794	P28	(P133)	P13	P157	P128

15. Other Assets

This account consists of:

	Note	2013	2012 (As restated - Note 3)
Current:			
Input VAT		**P10,555**	P7,134
Prepaid expenses		**1,835**	3,280
Special-purpose fund		**47**	44
Tax recoverable		**471**	278
Others		**25**	14
		P12,933	P10,750
Noncurrent:			
Due from related parties	*28, 34, 35*	**P10,877**	P10,788
Retirement benefits asset	*30*	**3,169**	391
Catalyst		**227**	145
Prepaid rent		**5,039**	5,175
Long-term receivables - net	*34, 35*	**45**	72
Noncurrent deposits	*34, 35*	**92**	87
Others - net		**1,398**	1,985
		P20,847	P18,643

The "Noncurrent assets - others" account includes software, marketing assistance to dealers, other prepayments and franchise fees amounting to P1,100 and P1,357 in 2013 and 2012, respectively, net of amortization of software, marketing assistance to dealers and franchise fees amounting to P294 and P148 in 2013 and 2012, respectively. The amortization of prepaid rent amounted to P258 and P184 in 2013 and 2012, respectively. Amortization of software, marketing assistance to dealers, franchise fees, prepaid rent and other prepayments is included as part of "Selling and administrative - depreciation and amortization" account in the consolidated statements of income (Notes 23 and 25).

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

16. Short-term Loans

This account pertains to unsecured Philippine peso, US dollar and Malaysian ringgit loans obtained from various banks with maturities ranging from 3 to 180 days and annual interest ranging from 1.16% to 5.90% in 2013 and 1.38% to 6.00% in 2012 (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 10) and working capital requirements.

17. Trade and Other Payables

This account consists of:

	Note	2013	2012
Trade	34, 35	**P23,958**	P9,788
Accrued rent	34, 35	**829**	768
Related parties	28, 34, 35	**1,046**	657
Specific taxes and other taxes payable		**959**	667
Sales container and fob deposits	34, 35	**317**	651
Accrued interest	34, 35	**570**	447
Dividends payable	34, 35	**461**	455
Insurance liabilities	34, 35	**178**	315
Retirement benefits liability	30	**66**	91
Accrued payroll	34, 35	**55**	58
Others	34, 35	**852**	970
		P29,291	P14,867

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

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

18. Long-term Debt

This account consists of:

	Note	2013	2012
Unsecured Peso denominated (net of debt issue cost)			
Fixed rate corporate notes of 7% in 2010 to 2017	*(b)*	**P19,859**	P19,830
Fixed rate corporate notes of 8.14% and 9.33%	*(a)*	**9,782**	9,810
Fixed rate corporate notes of 6.3212% and 7.1827%	*(d)*	**3,498**	3,530
Unsecured Foreign currency denominated (net of debt issue cost)			
Floating rate dollar loan	*(c)*	**11,979**	11,922
Floating rate dollar loan	*(e)*	**21,069**	10,921
	34, 35	**66,187**	56,013
Less current portion		**8,155**	73
		P58,032	P55,940

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 with a one-time payment of principal 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 and a one-time payment of P4,512 in June 2016.

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. A partial payment of US$180 million was made on June 29, 2012 and another partial payment of US$26 million on October 30, 2013.

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 a five-year term loan facility amounting to US$485 million with a syndicate of nine banks. The proceeds were used to finance the capital expenditure requirements of RMP-2. Amortization in seven equal amounts will start in November 2014, with final amortization due in November 2017. 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.

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, 2013 and 2012, 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 P458, P3,024 and P3,407 for the years ended 2013, 2012 and 2011, respectively (Note 26). Capitalized interest in 2013 and 2012 amounted to P3,529 and P886, respectively (Note 12).

Movements in debt issue costs follow:

	2013	2012
Beginning balance	**P1,010**	P602
Additions	**293**	899
Amortization for the year	**(445)**	(491)
Ending balance	**P858**	P1,010

Repayment Schedule
As of December 31, 2013 and 2012, the annual maturities of long-term debt are as follows:

2013

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2014	**P8,360**	**P205**	**8,155**
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**

2012

Year	Gross Amount	Debt Issue Costs	Net
2013	P84	P11	P73
2014	7,952	494	7,458
2015	8,939	196	8,743
2016	13,403	100	13,303
2017	23,261	194	23,067
2018 and beyond	3,384	15	3,369
	P57,023	P1,010	P56,013

19. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	2013	2012
Beginning balance		**P997**	P1,061
Additions		**2**	5
Effect of change in discount rate		**(46)**	(66)
Effect of change in lease term		**14**	(3)
Accretion for the year	*26*	**66**	83
Gain on settlement	*26*	**(29)**	(83)
Ending balance		**P1,004**	P997

20. Other Noncurrent Liabilities

	Note	**2013**	2012
Payable to a contractor		**P3,913**	P1,787
Cash bonds		**363**	360
Cylinder deposits		**210**	213
Related party	*28*	**-**	28
Others		**53**	47
	34, 35	**P4,539**	P2,435

21. Equity

a. On February 27, 2009, the BOD approved an increase of the Parent Company's authorized capital stock from the current 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 a total 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. By written assent, majority of the stockholders voted for the amendment of the reclassification of unissued common shares to preferred shares and the denial of pre-emptive rights.

   On the same date, the BOD likewise approved the issuance and offering to the general public of up to a total of 100,000,000 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.

b. Capital Stock

   <u>Common Share</u>
   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, 2013 and 2012, 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, 2013 and 2012, Petron has 100,000,000 (P1 par value) issued and outstanding preferred shares.

The 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.

The preferred shares are peso-denominated, cumulative, non-participating, non-voting and are redeemable at the option of the Parent Company. Dividend rate of 9.5281% per annum computed in reference to the issue price is payable every March 5, June 5, September 5 and December 5 of each year, when declared by the BOD.

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, 2013 and 2012 is 116 and 123, respectively.

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 with payment dates on December 5, 2013 and March 5, 2014.

      On March 7, 2012, the BOD approved cash dividends of P2.382 per share to preferred shareholders for the second and third quarters of 2012 with payment dates on June 5, 2012 and September 5, 2012, respectively. On the same date, a cash dividend of P0.10 per share was approved by the BOD for common shareholders as of record date April 2, 2012 which was paid on April 24, 2012.

      On August 9, 2012, the BOD approved cash dividends of P2.382 per share to preferred shareholders for the fourth quarter of 2012 and the first quarter of 2013 with payment dates on December 5, 2012 and March 5, 2013, respectively.

      On February 2, 2011, the BOD declared a cash dividend of P2.382 per share which was paid to preferred stockholders on March 7, 2011. Another cash dividend of P2.382 per share was paid on June 6, 2011 to preferred stockholders as of May 26, 2011. Also, on July 12, 2011, the BOD approved a cash dividend of P2.382 per share which was paid to preferred stockholders on September 5, 2011. Finally, stockholders holding preferred shares as of November 16, 2011 were also paid a cash dividend of P2.382 per share on December 5, 2011 and another P2.382 per share which was paid on March 5, 2012.

For common shares, the BOD approved a cash dividend of P0.10 per share to stockholders as of May 26, 2011, which was paid on June 6, 2011.

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, 2012 amounting to P25,171 were for the Parent Company's RMP-2 project and expansion projects of subsidiaries which are expected to be completed in 2014 to 2015.

d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P4,960, P2,866 and P2,482 in 2013, 2012 and 2011, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

e. Other reserves pertain to unrealized fair value gains (losses) on AFS financial assets, exchange differences on translation of foreign operations and others.

f. Reserve for retirement plan pertains to the cumulative remeasurements of the Group's defined benefit retirement plan.

g. Undated Subordinated Capital Securities (USCS)

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

Holders of the Securities are conferred a right to receive distribution on a semi-annual basis, subject to the declaration of the BOD, 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 first payment of distribution in respect of the Securities amounting to US$28.125 million (P1,674) was made on August 6, 2013.

22. Cost of Goods Sold

This account consists of:

	Note	**2013**	2012	2011
Inventories	*10*	**P432,779**	P398,102	P244,937
Depreciation and amortization	*25*	**2,628**	2,471	2,207
Personnel expenses	*24*	**1,269**	1,006	684
Others	*31*	**3,803**	5,219	3,782
		P440,479	P406,798	P251,610

Distribution or transshipment costs included as part of inventories amounted to P8,049, P8,155 and P4,439 in 2013, 2012 and 2011, respectively.

23. Selling and Administrative Expenses

This account consists of:

	Note	**2013**	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Personnel expenses	*24*	**P2,815**	P2,246	P1,863
Purchased services and utilities		**2,478**	2,113	1,464
Depreciation and amortization	*15, 25*	**3,178**	2,642	1,450
Maintenance and repairs		**1,119**	1,238	700
Rent - net	*29, 31*	**(6)**	(148)	122
Impairment losses on trade and other receivables	*4, 9*	**3**	13	75
Materials and office supplies		**269**	425	562
Advertising		**922**	1,052	545
Taxes and licenses		**304**	262	181
Others	*10*	**393**	294	267
		P11,475	P10,137	P7,229

Selling and administrative expenses include research and development costs amounting to P60, P50 and P42 in 2013, 2012 and 2011, respectively. Rent is shown net of rental income amounting to P1,155, P977 and P431 in 2013, 2012 and 2011, respectively.

24. Personnel Expenses

This account consists of:

	Note	2013	2012 (As restated)	2011 (As restated)
Salaries, wages and other employee costs	*28*	**P3,585**	P2,954	P2,705
Retirement costs (income) - defined benefit plan	*28, 30*	**323**	161	(214)
Retirement costs - defined contribution plan	*28*	**176**	137	56
		P4,084	P3,252	P2,547

The above amounts are distributed as follows:

	Note	2013	2012 (As restated)	2011 (As restated)
Costs of goods sold	*22*	**P1,269**	P1,006	P684
Selling and administrative expenses	*23*	**2,815**	2,246	1,863
		P4,084	P3,252	P2,547

25. Depreciation and Amortization

This account consists of:

	Note	2013	2012	2011
Cost of goods sold:				
Property, plant and equipment	*12, 22*	**P2,628**	P2,471	P2,207
Selling and administrative expenses:				
Property, plant and equipment	*12*	**2,625**	2,219	1,357
Investment property	*13*	**1**	91	91
Intangible assets and others	*15*	**552**	332	2
	23	**3,178**	2,642	1,450
		P5,806	P5,113	P3,657

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

This account consists of:

	Note	2013	2012	2011
Interest expense and other financing charges:				
Long-term debt	*18*	**P406**	P2,533	P3,233
Short-term loans	*16*	**3,351**	3,044	1,185
Bank charges		**1,579**	1,351	454
Amortization of debt issue costs	*18*	**52**	491	174
Accretion on ARO	*19*	**66**	83	71
Others		**8**	6	7
		P5,462	P7,508	P5,124
Interest income:				
Advances to related parties	*15, 28*	**P777**	P580	P927
Short-term placements	*6*	**373**	345	330
AFS financial assets	*8*	**17**	20	35
Trade receivables		**88**	101	76
Cash in banks	*6*	**14**	58	6
Others		**16**	17	6
		P1,285	P1,121	P1,380
Other income (expenses):				
Foreign currency gains (losses) - net	*34*	**(P4,109)**	P1,270	(P88)
Marked-to-market gains (losses)	*35*	**2,514**	(845)	205
Insurance claims		**115**	119	177
Changes in fair value of financial assets at FVPL	*7*	**(29)**	(22)	1
Gain on settlement of ARO	*19*	**29**	83	27
Hedging gains - net		**495**	49	193
Others - net		**310**	123	6
		(P675)	P777	P521

The Parent Company recognized its share in the net income of PDSI amounting P0.46, P0.67 and P0.53 in 2013, 2012 and 2011, respectively, and recorded it as part of "Other income (expenses) - Others" account.

27. Income Taxes

Deferred tax assets and liabilities are from the following:

	2013	2012 (As restated - Note 3)
Various allowance, accruals and others	**P795**	P552
Rental	**218**	196
ARO	**242**	210
Net retirement benefits (asset) liability	**(837)**	5
MCIT	**10**	301
NOLCO	**19**	504
Unutilized tax losses	**124**	93
Fair market value adjustments on business combination	**(47)**	(46)
Excess of double-declining over straight-line method of depreciation and amortization	**(3,101)**	(3,207)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(2,037)**	(1,097)
Inventory differential	**(438)**	(326)
Capitalized taxes and duties on inventories deducted in advance	**(204)**	(104)
Unrealized foreign exchange losses (gains) - net	**816**	(141)
Unrealized fair value gains on AFS financial assets	**(3)**	(5)
	(P4,443)	(P3,065)

As of December 31, 2013, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporation income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2011	December 31, 2014	P63	P -
2012	December 31, 2015	1	4
2013	December 31, 2016	-	6
		P64	**P10**

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

	2013	2012 (As restated - Note 3)
Deferred tax assets	**P162**	P78
Deferred tax liabilities	**(4,605)**	(3,143)
	(P4,443)	(P3,065)

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:

	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Current	**P1,356**	P546	P2,784
Deferred	**494**	(87)	43
	P1,850	P459	P2,827

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

	2013	2012 (As restated)
Various allowance, accruals and others	**(P243)**	P288
Rental	**(22)**	(18)
ARO	**(32)**	(18)
MCIT	**291**	(299)
NOLCO	**485**	(504)
Unutilized tax losses	**(31)**	(93)
Excess of double-declining over straight-line method of depreciation and amortization	**(106)**	123
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**940**	267
Inventory differential	**112**	212
Capitalized taxes and duties on inventories deducted in advance	**100**	(122)
Unrealized foreign exchange losses (gains) - net	**(957)**	(77)
Others	**(43)**	154
	P494	(P87)

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

	Note	**2013**	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Statutory income tax rate		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	*36*	**(2.97%)**	(3.67%)	(4.50%)
Interest income subjected to lower final tax		**(1.35%)**	(4.02%)	(0.94%)
Nontaxable income		**(0.81%)**	(8.81%)	(0.67%)
Nondeductible expense		**3.13%**	6.66%	0.03%
Nondeductible interest expense		**0.49%**	1.61%	0.37%
Changes in fair value of financial assets at FVPL	*26*	**0.12%**	0.31%	-
Excess of optional standard deduction over deductible expenses		**(0.03%)**	(0.36%)	(0.05%)
Others, mainly income subject to different tax rates		**(1.93%)**	(1.22%)	(0.19%)
Effective income tax rate		**26.65%**	20.50%	24.05%

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 2013 and 2012.

28. Related Party Disclosures

The Parent Company, certain subsidiaries, associates, joint venture and SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates. The balances and transactions with related parties as of and for the years ended December 31 follow:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plan	*9, 15, 30, a*	**2013**	**P777**	**P -**	**P16,393**	**P -**	On demand/ long-term; Interest bearing	Unsecured; No impairment
		2012	557	-	15,517	-		
		2011	420	-	24,728	-		
Intermediate Parent	*e*	**2013**	**4**	**167**	**5**	**94**	On demand; Non-interest bearing	Unsecured; No impairment
		2012	5	87	7	20		
		2011	1	76	111	20		
Under common control	*b, c, d*	**2013**	**16,053**	**3,444**	**3,180**	**924**	On demand; Non-interest bearing	Unsecured; No impairment
		2012	13,680	2,106	1,971	612		
		2011	4,840	2,467	634	632		
Associates	*b*	**2013**	**86**	**-**	**21**	**-**	On demand; Non-interest bearing	Unsecured; No impairment
		2012	78	-	17	28		
Joint venture	*c*	**2013**	**-**	**137**	**8**	**28**	On demand; Non-interest bearing	Unsecured; No impairment
		2012	-	45	18	25		
		2013	**P16,920**	**P3,748**	**P19,607**	**P1,046**		
		2012	P14,320	P2,238	P17,530	P685		
		2011	P5,261	P2,543	P25,473	P652		

a. As of December 31, 2013 and 2012, the Parent Company has interest bearing advances to PCERP, included as part of "Other receivables" and "Other noncurrent assets" account in the consolidated statements of financial position, for some investment opportunities (Notes 9, 15 and 30).

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

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. (SMPI) for its office space covering 6,802 square meters with a monthly rate of P6.4. The lease, which commenced on June 1, 2013, 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.

g. Amounts owed to related parties consist of trade payables, non-trade payables and other noncurrent liabilities.

h. The compensation and benefits of key management personnel of the Group, by benefit type, included as part of "Personnel expenses" account follow:

	2013	2012 (As restated)	2011 (As restated)
Salaries and other short-term employee benefits	**P536**	P568	P459
Retirement benefits - defined contribution plan	**23**	18	12
Retirement benefits - defined benefit plan	**66**	23	(53)
	P625	P609	P418

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:

	2013	2012	2011
Within one year	**P1,110**	P913	P657
After one year but not more than five years	**3,490**	2,998	2,423
After five years	**8,554**	6,861	6,730
	P13,154	P10,772	P9,810

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:

	2013	2012	2011
Within one year	**P284**	P298	P279
After one year but not more than five years	**384**	344	262
After five years	**43**	69	45
	P711	P711	P586

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, 2013. 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)		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Balance at beginning of year	**(P5,671)**	(P3,634)	(P3,559)	**P5,021**	P10,206	P25,163	**(P33)**	(P3,249)	(P16,745)	**(P683)**	P3,323	P4,859
Benefit obligation of a newly acquired subsidiary	**-**	(834)	-	**-**	-	-	**-**	-	-	**-**	(834)	-
Recognized in profit or loss												
Current service cost	**(283)**	(203)	(163)	**-**	-	-	**-**	-	-	**(283)**	(203)	(163)
Interest expense	**(311)**	(266)	(281)	**-**	-	-	**-**	-	-	**(311)**	(266)	(281)
Interest income	**-**	-	-	**273**	508	1,981	**-**	-	-	**273**	508	1,981
Interest on the effect of asset ceiling	**-**	-	-	**-**	-	-	**(2)**	(200)	(1,323)	**(2)**	(200)	(1,323)
	(594)	(469)	(444)	**273**	508	1,981	**(2)**	(200)	(1,323)	**(323)**	(161)	214
Recognized in other comprehensive income												
Remeasurements:												
Actuarial (gains) losses arising from:												
Experience adjustments	**53**	(413)	72	**-**	-	-	**-**	-	-	**53**	(413)	72
Changes in financial assumptions	**(101)**	(210)	(257)	**-**	-	-	**-**	-	-	**(101)**	(210)	(257)
Changes in demographic assumptions	**42**	(327)	370	**-**	-	-	**-**	-	-	**42**	(327)	370
Return on plan asset excluding interest	**-**	-	-	**4,651**	(5,552)	(16,754)	**-**	-	-	**4,651**	(5,552)	(16,754)
Changes in the effect of asset ceiling	**-**	-	-	**-**	-	-	**(1,413)**	3,416	14,819	**(1,413)**	3,416	14,819
	(6)	(950)	185	**4,651**	(5,552)	(16,754)	**(1,413)**	3,416	14,819	**3,232**	(3,086)	(1,750)
Others												
Benefits paid	**413**	207	184	**(347)**	(170)	(184)	**-**	-	-	**66**	37	-
Transfers from other plans/affiliate	**(38)**	-	-	**-**	-	-	**-**	-	-	**(38)**	-	-
Transfers from other plans/affiliate	**38**	(29)	-	**-**	29	-	**-**	-	-	**38**	-	-
Translation adjustment	**(9)**	38	-	**-**	-	-	**-**	-	-	**(9)**	38	-
	404	216	184	**(347)**	(141)	(184)	**-**	-	-	**57**	75	-
Balance at end of year	**(P5,867)**	(P5,671)	(P3,634)	**P9,598**	P5,021	P10,206	**(P1,448)**	(P33)	(P3,249)	**P2,283**	(P683)	P3,323

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

	Note	2013	2012 (As restated - Note 3)
Other noncurrent assets - net	*15*	**P3,169**	P391
Trade and other payables	*17*	**(66)**	(91)
Retirement benefits liability (noncurrent portion)		**(820)**	(983)
		P2,283	(P683)

Retirement costs (income) recognized in the consolidated statements of income by the Parent Company amounted to P205, P86 and (P215) in 2013, 2012 and 2011, respectively.

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P118, P75 and P1 in 2013, 2012 and 2011, respectively.

The carrying amounts of the Parent Company's retirement fund approximate fair values as of December 31, 2013 and 2012.

The Parent Company does not expect to pay anything to its defined benefit plans in 2014 since the plan asset exceeds the benefit obligation.

Plan assets consist of the following:

	2013	2012
Shares of stock		
Quoted	**80%**	77%
Unquoted	**6%**	7%
Government securities	**4%**	6%
Cash	**5%**	6%
Others	**5%**	4%
	100%	100%

Investment in Shares of Stock

As of December 31, 2013, the Parent Company's plan assets include 1,492,431,097 common shares of Petron with fair market value per share of P13.96.

As of December 31, 2013, the Parent Company's plan assets include 2,000,000 Series "2", Subseries "A" and 2,000,000 Series "2", Subseries "B" preferred shares of Petron with fair market value per share of P76.15 and P76.30, respectively.

As of December 31, 2013, the Parent Company's plan assets include investment in Petron bonds amounting to P127.

The plan recognized a gain (loss) on the investment in marketable securities and bonds of the Parent Company and SMC amounting to P5,228 and (P4,527) in 2013 and 2012, respectively.

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

Investment in shares of stock also includes investment in the common shares of PAHL.

On June 23, 2010, the Plan acquired 102,142,858 unissued and unsubscribed ordinary Class B shares for P422 (US$9 million) or 18.33% of the outstanding shares of PAHL.

On March 31, 2011, the Plan entered into a sale and purchase agreement with Silverdale (Suisse), S.A. for the 273,000,000 ordinary Class A shares of PAHL for a consideration of P1,497 (US$35 million) payable in six installments which resulted in an increase in the Plan's ownership equity in PAHL from 18.33% to 67.33%.

On December 31, 2012, PAHL issued additional shares to the other shareholder, which diluted the Plan's ownership equity in PAHL to 54%.

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 2014.

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 Plans expose 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:

	2013	2012	2011
Discount rate	**5.00% to 6.26%**	5.00% - 6.30%	6.17% - 7.09%
Future salary increases	**6.00% to 8.00%**	6.00% - 8.00%	7.00% - 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 7.55 to 28.18 years and 9.70 to 20.00 years as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit asset by the amounts below:

	Defined Benefit Asset	
	1 Percent Increase	1 Percent Decrease
Discount rate	P467	(P541)
Salary increase rate	(490)	433

The Parent Company has advances to PCERP amounting to P16,393 and P15,517 as of December 31, 2013 and 2012, 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% and 4% in 2013 and 2012, respectively (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2013 and 2012 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, 2013, 2012, and 2011.

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, 2013 and 2012. The contract is extended until December 31, 2014.

Petron Malaysia has a service level agreement with Concord Energy Ltd. (Concord Energy). Under this agreement, Concord Energy shall act as PMRMB's commercial trader in relation to all spot & term purchase of Crude Oil and all spot & term sale of Low Sulfur Waxy Residue from Port Dickson Refinery.

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, 2013, the following are the fuel supply contracts granted to the Parent Company:

<u>NPC</u>

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Dec. 29, 2011	Jan. 11, 2012	Calayan DP & others (Jan. - Dec. 2012 with 6 months extension)	390			17		
Dec. 29, 2011	July 4, 2012	Repeat Order for CY 2012 Contract (July - Dec. 2012 with 6 months extension)	4			0.18		
Dec. 29, 2011	Feb. 29, 2012	NPC Calapan Modular and Jolo (Jan. - Dec. 2012 with 6 months extension)	78			3		
Nov. 13, 2012	Dec. 5, 2012	NPC Additional Contract 2012 (Nov. - Dec. 2012 with 6 months extension)	1,172			51		
Nov. 13, 2012	Dec. 5, 2012	NPC Repeat Order (Nov. - Dec. 2012 with 6 months extension)	69			3		
Mar 5, 2013	Mar 13, 2013	NPC Mar - May. 2013	672	34		29	1	
May 22, 2013	May 28, 2013	NPC Basco DP & Other NPC (May - Dec. 2013 with 6 months extension)	13,556	4,332		586	112	
May 22, 2013	June 14, 2013	NPC Pulang Lupa DP, Lot 9 Romblon and Lot 27 Zamboanga (May - Dec. 2013 with 6 months extension)	13,511			613		
June 10, 2013	August 1, 2013	NPC ELO Patnanungan DP & Others (Aug - Dec 2013 with 6 months extension)			154			15

PSALM

Bid Date	Date of Award	Contract Duration	Volume in KL DFO*	Volume in KL IFO*	Volume in KL ELO*	Contract Price DFO*	Contract Price IFO*	Contract Price ELO*
Feb. 21, 2012	Mar. 9, 2012	Power Barge 101 (March - December 2012 with 6 months extension)		4,663			165	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 102 (March - December 2012 with 6 months extension)		1,865			56	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 103 (March - December 2012 with 6 months extension)		3,725			122	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 104 (March - December 2012 with 6 months extension)		8,370			262	
Oct. 10, 2012	Oct. 24, 2012	Power Barge 101 Engine Lubricating Oil (October - December 2012 with 6 months extension)			80			8
Oct. 10, 2012	Oct. 24, 2012	Power Barge 102 Engine Lubricating Oil (October - December 2012 with 6 months extension)			40			4
Mar. 7, 2013	Mar. 26, 2013	Power Barge 103 (March - December 2013)	71			3		
Mar. 7, 2013	Mar. 26, 2013	Southern Philippines Power Corporation (March - December 2013)	90			4		
Mar. 7, 2013	Mar. 26, 2013	Western Mindanao Power Corporation (March - December 2013)	42			2		
May 7, 2013	May 23, 2013	Power Barge 101 (June - December 2013 with 6 months extension)	310			12		
May 7, 2013	May 23, 2013	Power Barge 102 (June - December 2013 with 6 months extension)	51			2		
May 7, 2013	May 23, 2013	Naga Plant Complex Corporation (June - December 2013 with 6 months extension)	350			19		

** 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 2013, Petron was awarded to supply a total of 30,366 kilo-liters (KL) worth P1,344 (2012-84,159 KL worth P3,640) of diesel fuel; 22,989 KL worth P718 (2012-143,225 KL worth P4,926) of bunker fuel and 274 KL worth P27 (2012-1,267 KL worth P126) of engine lubricating oil.

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 P37, P33 and P35 in 2013, 2012 and 2011, 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, 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, 2013 and 2012, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

32. Basic and Diluted Earnings Per Share

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

	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
Net income attributable to equity holders of the Parent Company	**P5,247**	P1,701	P8,914
Dividends on preferred shares for the period	**953**	953	1,191
Distributions to the holders of USCS	**1,674**	-	-
Net income attributable to common shareholders of the Parent Company (a)	**P2,620**	P748	P7,723
Weighted average number of common shares outstanding (in millions) (b)	**9,375**	9,375	9,375
Basic/Diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	**P0.28**	P0.08	P0.82

As of December 31, 2013, 2012 and 2011, the Parent Company has no potential dilutive debt or equity instruments.

33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

	2013	2012	2011
Decrease (increase) in assets:			
Trade receivables	**(P3,971)**	(P3,484)	(P3,714)
Inventories	**(1,819)**	1,341	(9,618)
Other current assets	**(1,247)**	(2,469)	(3,925)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**9,747**	(3,909)	2,646
Trade and other payables and others	**19,070**	4,310	851
	21,780	(4,211)	(13,760)
Additional allowance for impairment of receivables, inventory decline and/or obsolescence and others	**630**	383	121
	P22,410	(P3,828)	(P13,639)

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. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Group.

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

a. The Audit 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:

	2013		2012	
	US dollar	**Phil. peso Equivalent**	US dollar	Phil. peso Equivalent
Assets				
Cash and cash equivalents	**439**	**19,479**	226	9,277
Trade and other receivables	**899**	**39,926**	1,084	44,498
Other assets	**61**	**2,691**	58	2,381
	1,399	**62,096**	1,368	56,156
Liabilities				
Short-term loans	**440**	**19,546**	787	32,306
Liabilities for crude oil and petroleum product importation	**1,347**	**59,804**	1,010	41,460
Long-term debts (including current maturities)	**759**	**33,708**	575	23,604
Other liabilities	**507**	**22,483**	246	10,098
	3,053	**135,541**	2,618	107,468
Net foreign currency - denominated monetary liabilities	**(1,654)**	**(73,445)**	(1,250)	(51,312)

The Group incurred net foreign currency gains (losses) amounting to (P4,109), P1,270 and (P88) in 2013, 2012 and 2011, respectively (Note 26), that were mainly countered by certain marked-to-market gains (losses) and hedging gains (losses) (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, 2011	43.84
December 31, 2012	41.05
December 31, 2013	**44.40**

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, of profit before tax and equity as of December 31, 2013 and 2012:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
2013	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	(P229)	(P370)	P229	P370
Trade and other receivables	(46)	(885)	46	885
Other assets	(44)	(48)	44	48
	(319)	(1,303)	319	1,303
Short-term loans	30	431	(30)	(431)
Liabilities for crude oil and petroleum product importation	466	1,207	(466)	(1,207)
Long-term debts (including current maturities)	759	531	(759)	(531)
Other liabilities	432	377	(432)	(377)
	1,687	2,546	(1,687)	(2,546)
	P1,368	P1,243	(P1,368)	(P1,243)

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
2012	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
Cash and cash equivalents	(P94)	(P198)	P94	P198
Trade and other receivables	(73)	(1,062)	73	1,062
Other assets	(36)	(47)	36	47
	(203)	(1,307)	203	1,307
Short-term loans	45	773	(45)	(773)
Liabilities for crude oil and petroleum product importation	455	874	(455)	(874)
Long-term debts (including current maturities)	575	403	(575)	(403)
Other liabilities	121	209	(121)	(209)
	1,196	2,259	(1,196)	(2,259)
	P993	P952	(P993)	(P952)

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 P337 and P236 in 2013 and 2012, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As of December 31, 2013 and 2012, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

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.*

2012	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P83	P5,284	P84	P4,548	P20,036	P3,384	P33,419
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	6.3% - 7.2%	
US$ denominated (expressed in Php)	-	2,668	8,855	8,855	3,226	-	23,604
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		
	P83	P7,952	P8,939	P13,403	P23,262	P3,384	P57,023

**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	**2013**	2012
Cash in bank and cash equivalents (net of cash on hand)	*6*	**P46,356**	P22,033
Derivative assets	*7*	**666**	39
Available-for-sale financial assets	*8*	**915**	911
Trade and other receivables - net	*9*	**67,667**	57,731
Due from related parties	*15*	**10,877**	10,788
Long-term receivables - net	*15*	**45**	72
Noncurrent deposits	*15*	**92**	87
		P126,618	P91,661

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 P4,827 and P4,899 as of December 31, 2013 and 2012, 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, 2013 and 2012 are shown below (Note 9):

	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**

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2012				
Reseller	P2,648	P141	P45	P2,834
Lubes	378	10	28	416
Gasul	766	92	184	1,042
Industrial	12,937	679	682	14,298
Others	4,657	844	134	5,635
	P21,386	P1,766	P1,073	P24,225

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*" refer to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's TAR as of December 31, 2013 and 2012:

	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**

	Trade Accounts Receivables Per Class			
	Class A	Class B	Class C	Total
December 31, 2012				
Reseller	P2,171	P387	P276	P2,834
Lubes	151	206	59	416
Gasul	243	302	497	1,042
Industrial	3,427	8,375	2,496	14,298
Others	3,239	2,097	299	5,635
	P9,231	P11,367	P3,627	P24,225

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 to manage 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, 2013 and 2012.

2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P50,398	P50,398	P50,398	P -	P -	P -
Trade and other receivables	67,667	67,667	67,667	-	-	-
Due from related parties	10,877	10,877	-	10,877	-	-
Derivative assets	666	666	666	-	-	-
Financial assets at FVPL	117	117	117	-	-	-
AFS financial assets	915	942	513	304	125	-
Long-term receivables - net	45	55	8	6	15	26
Noncurrent deposits	92	92	-	2	11	79
Financial Liabilities						
Short-term loans	100,071	100,532	100,532	-	-	-
Liabilities for crude oil and petroleum product importation	38,707	38,707	38,707	-	-	-
Accounts payable and accrued expenses (excluding taxes payable and retirement benefits liability)	28,266	28,266	28,266	-	-	-
Derivative liabilities	152	152	152	-	-	-
Long-term debts (including current maturities)	66,187	79,008	11,899	15,475	48,351	3,283
Cash bonds	363	372	-	364	3	5
Cylinder deposits	210	210	-	-	-	210
Other noncurrent liabilities	3,966	3,991	-	3,938	11	42

2012	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P26,965	P26,965	P26,965	P -	P -	P -
Trade and other receivables	57,731	57,731	57,731	-	-	-
Due from related parties	10,788	10,788	-	10,788	-	-
Derivative assets	39	39	39	-	-	-
Financial assets at FVPL	147	147	147	-	-	-
AFS financial assets	911	1,026	139	488	399	-
Long-term receivables - net	72	84	8	34	16	26
Noncurrent deposits	87	87	-	4	8	75
Financial Liabilities						
Short-term loans	99,735	100,174	100,174	-	-	-
Liabilities for crude oil and petroleum product importation	24,960	24,960	24,960	-	-	-
Accounts payable and accrued expenses (excluding taxes payable and retirement benefits liability)	14,109	14,109	14,109	-	-	-
Derivative liabilities	245	245	245	-	-	-
Long-term debts (including current maturities)	56,013	71,822	3,560	11,208	52,856	4,198
Cash bonds	360	365	342	11	6	6
Cylinder deposits	213	213	-	-	-	213
Other noncurrent liabilities	1,862	1,862	-	1,815	24	23

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 downward price risk and margins of Mean of Platts of Singapore (MOPS)-based sales. 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 in the table below:

	2013	2012
Total assets	**P357,458**	P280,333
Total liabilities	**245,570**	203,430
Total equity	**111,888**	76,903
Debt to equity ratio	**2.2:1**	2.6:1

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:

		2013		2012	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*6*	**P50,398**	**P50,398**	P26,965	P26,965
Trade and other receivables	*9*	**.67,667**	**67,667**	57,731	57,731
Due from related parties	*15*	**10,877**	**10,877**	10,788	10,788
Long-term receivables - net	*15*	**45**	**45**	72	72
Noncurrent deposits	*15*	**92**	**92**	87	87
Loans and receivables		**129,079**	**129,079**	95,643	95,643
AFS financial assets	*8*	**915**	**915**	911	911
Financial assets at FVPL	*7*	**117**	**117**	147	147
Derivative assets	*7*	**666**	**666**	39	39
FA at FVPL		**783**	**783**	186	186
Total financial assets		**P130,777**	**P130,777**	P96,740	P96,740

		2013		2012	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):					
Short-term loans	*16*	**P100,071**	**P100,071**	P99,735	P99,735
Liabilities for crude oil and petroleum product importation		**38,707**	**38,707**	24,960	24,960
Trade and other payables (excluding specific taxes and other taxes payable and retirement benefits liability)	*17*	**28,266**	**28,266**	14,109	14,109
Long-term debt including current portion	*18*	**66,187**	**66,187**	56,013	56,013
Cash bonds	*20*	**363**	**363**	360	360
Cylinder deposits	*20*	**210**	**210**	213	213
Other noncurrent liabilities	*20*	**3,966**	**3,966**	1,862	1,862
FL at amortized cost		**237,770**	**237,770**	197,252	197,252
Derivative liabilities		**152**	**152**	245	245
Total financial liabilities		**P237,922**	**P237,922**	P197,497	P197,497

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 were based on the forecasted crude and product prices by Mitsui & Co. Commodity Risk Management Ltd. (MCRM), an independent trading group.

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 2013 and 2012 are 5.34% and 6.14%, 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, 2013 and 2012, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$1,445 million and US$963 million, respectively, and with various maturities in 2014 and 2013. As of December 31, 2013 and 2012, the net fair value of these currency forwards amounted to P640 and (P217), respectively.

Commodity Swaps
The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2014. 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 2.0 million barrels and 0.5 million barrels for 2013 and 2012, respectively. The estimated net receipts for these transactions amounted to P6 and P30 for 2013 and 2012, respectively.

Commodity Options
As of December 31, 2013, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 1.0 million barrels.

The call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The estimated amount net payout of these call and put options as of December 31, 2013 amounted to P41.

Outstanding hedge in 2012 with notional quantities of 0.2 million barrels has an actual net receipt of P15.

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 and 2012, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$83 million. 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 and 2012, the net positive (negative) fair value of these embedded currency forwards amounted to (P68) and P11, respectively.

For the years ended December 31, 2013, 2012 and 2011, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P2,514, (P845), and P205, respectively (Note 26).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative transactions in 2013 and 2012 are as follows:

	Note	**2013**	2012
Fair value at beginning of year		**(P206)**	(P12)
Net changes in fair value during the year	*26*	**2,514**	(845)
Fair value of settled instruments		**(1,794)**	651
Balance at end of year		**P514**	(P206)

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2013 and 2012. 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.

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)**

2012	Level 1	Level 2	Total
Financial Assets:			
FVPL	P147	P -	P147
Derivative assets	-	39	39
AFS financial assets	804	107	911
Financial Liabilities:			
Derivative liabilities	-	(245)	(245)

The Group has no financial instruments valued based on Level 3 as of December 31, 2013 and 2012. 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)

Mixed Xylene, Benzene, Toluene (BTX) 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 non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export producer status of Benzene and Toluene; and (3) 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 70% of the production of Mixed Xylene and 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 four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three (3) years; (2) 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 (3) 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 at least 70% of production output of Mixed Xylene and 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 70% production of Mixed Xylene and 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.

Mixed Xylene entitlement period ended in April 2012 and registration with BOI was cancelled on August 10, 2012.

Petron was granted a one-year extension of ITH incentive for its propylene sales.

<u>Fluidized Bed Catalytic Cracker (PetroFCC) Unit</u>
On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.

f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

g. Exemption from real property tax on production equipment or machinery.

h. Exemption from contractor's tax.

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

<u>70 MW Coal-Fired Power Plant (Limay, Bataan)</u>
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.

<u>RMP-2 Project</u>
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.

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

37. Segment Information

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

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

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

b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.

c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other Asian countries such as South Korea, Taiwan, China, Singapore, Cambodia, Malaysia, Indonesia, Hong Kong and Thailand.

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, 2013, 2012 and 2011.

	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)	-
Segment results	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

Forward

	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)	-
Segment results	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

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2011						
Revenue:						
External sales	P272,287	P -	P -	P1,669	P -	P273,956
Inter-segment sales	202,302	102	357	-	(202,761)	-
Segment results	13,875	52	152	74	964	15,117
Net income	8,401	165	27	91	246	8,930
Assets and liabilities:						
Segment assets	186,776	1,834	3,954	918	(14,375)	179,107
Segment liabilities	123,456	146	3,018	224	(13,222)	113,622
Other segment information:						
Property, plant and equipment	46,465	-	-	205	3,776	50,446
Depreciation and amortization	3,615	-	-	42	-	3,657
Interest expense	5,123	-	123	1	(123)	5,124
Interest income	1,448	35	4	16	(123)	1,380
Income tax expense	2,782	24	18	12	(9)	2,827

Inter-segment sales transactions amounted to P222,281, P182,955 and P202,761 for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2013, 2012 and 2011:

	Reseller	**Lube**	**Gasul**	**Industrial**	**Others**	**Total**
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
2011						
Revenue	P107,782	P2,531	P19,500	P105,741	P36,733	P272,287
Property, plant and equipment	5,189	279	205	78	40,714	46,465
Capital expenditures	303	-	11	-	17,854	18,168

Geographical Segments

The following table presents segment assets of the Group for the year 2013 and 2012.

	2013	2012
Local	**P284,845**	P213,013
International	**72,451**	67,242
	P357,296	P280,255

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2013, 2012 and 2011.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2013						
Revenue:						
Local	**P265,989**	**P21**	**P560**	**P2,551**	**(P4,676)**	**P264,445**
Export/international	**416,745**	**53**	**-**	**-**	**(217,605)**	**199,193**
2012						
Revenue:						
Local	P264,728	P55	P383	P2,596	(P2,292)	P265,470
Export/international	339,926	62	-	-	(180,663)	159,325
2011						
Revenue:						
Local	P246,009	P71	P357	P1,669	(P1,411)	P246,695
Export/international	228,580	31	-	-	(201,350)	27,261

38. Events After the Reporting Date

On February 6, 2014, the Parent Company paid distributions amounting to US$28.125 million (P1,674) to the holders of USCS.

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

On March 26, 2014, PCERP sold 470,000,000 common shares of the Parent Company at a price of P11.50 per share through the facilities of PSE with settlement date of April 1, 2014.

39. Other Matters

a. Petron has unused letters of credit totaling approximately P29,176, P31,417 and P25,452 as of December 31, 2013, 2012 and 2011, 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, 2013.

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, 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. As of December 31, 2013, the appeal remained pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016. As of December 31, 2013, the petitions remained pending.

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 I 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, 2013.

e. Other Proceedings

The Group is also party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Group's business, financial condition or results of operations.

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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATON

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Petron Corporation (the "Company") and Subsidiaries, as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated March 24, 2014.

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. 4225135MC
Issued January 2, 2014 at Makati City

March 24, 2014
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES
INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2013

Statement of Management's Responsibility for the Consolidated Financial Statements

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

Supplementary Schedules to Consolidated Financial Statements

Supplementary Schedules of Annex 68 - E		Page No.
A.	Financial Assets	NA[a]
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders	NA[b]
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[c]
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

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

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

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

Supplementary Schedule to Parent Financial Statements

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

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Petron Corporation	P 3,409	P 16,956	P (14,248)	P -	P 6,117	P 6,117	P -	P 6,117
PMC	34	245	(251)	-	28	28	-	28
PFC	3	47	(46)	-	4	4	-	4
PSTPL	25,427	221,629	(225,380)	-	21,676	21,676	-	21,676
Petrogen	10	404	(348)	-	66	66	-	66
Ovincor	12	49	(50)	-	11	11	-	11
NVRC and Subsidiaries	-	113	(89)	-	24	24	-	24
PAHL	-	69	-	-	69	69	-	69
TOTAL	P 28,895	P 239,512	P (240,412)	P -	P 27,995	P 27,995	P -	P 27,995

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2013
(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 25,473	P 222,358	P (226,098)	P -	P 21,733	P 21,733	P -	P 21,733
PMC	154	1,364	(1,378)	-	140	140	-	140
PFC	56	536	(542)	-	50	50	-	50
PSTPL	2	7,841	(7,108)	-	735	735	-	735
Petrogen	13	256	(68)	-	201	201	-	201
Ovincor	-	80	-	-	80	80	-	80
NVRC and Subsidiaries	2,963	2,258	(1,610)	-	3,611	3,611	-	3,611
Petron Malaysia	234	331	(213)	-	352	352	-	352
PAHL	-	4,694	(3,395)	-	1,299	1,299	-	1,299
TOTAL	P 28,895	P 239,718	P (240,412)	P -	P 28,201	P 28,201	P -	P 28,201

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE D - GOODWILL AND OTHER INTANGIBLE ASSETS
DECEMBER 31, 2013
(Amounts in Millions)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	10,261	298	-	-	(1,173)	9,386
Franchise Fee:						
Cost	P 17	P 1	P -	P -	P -	P 18
Less amortization for the year	10	-	2	-	-	12
	P 7	P 1	P (2)	P -	P -	P 6
Computer Software:						
Cost	P 628	P -	P -	P -	P (1)	P 627
Less amortization for the year	224	-	92	-	(5)	311
	P 404	P -	P (92)	P -	P 4	P 316

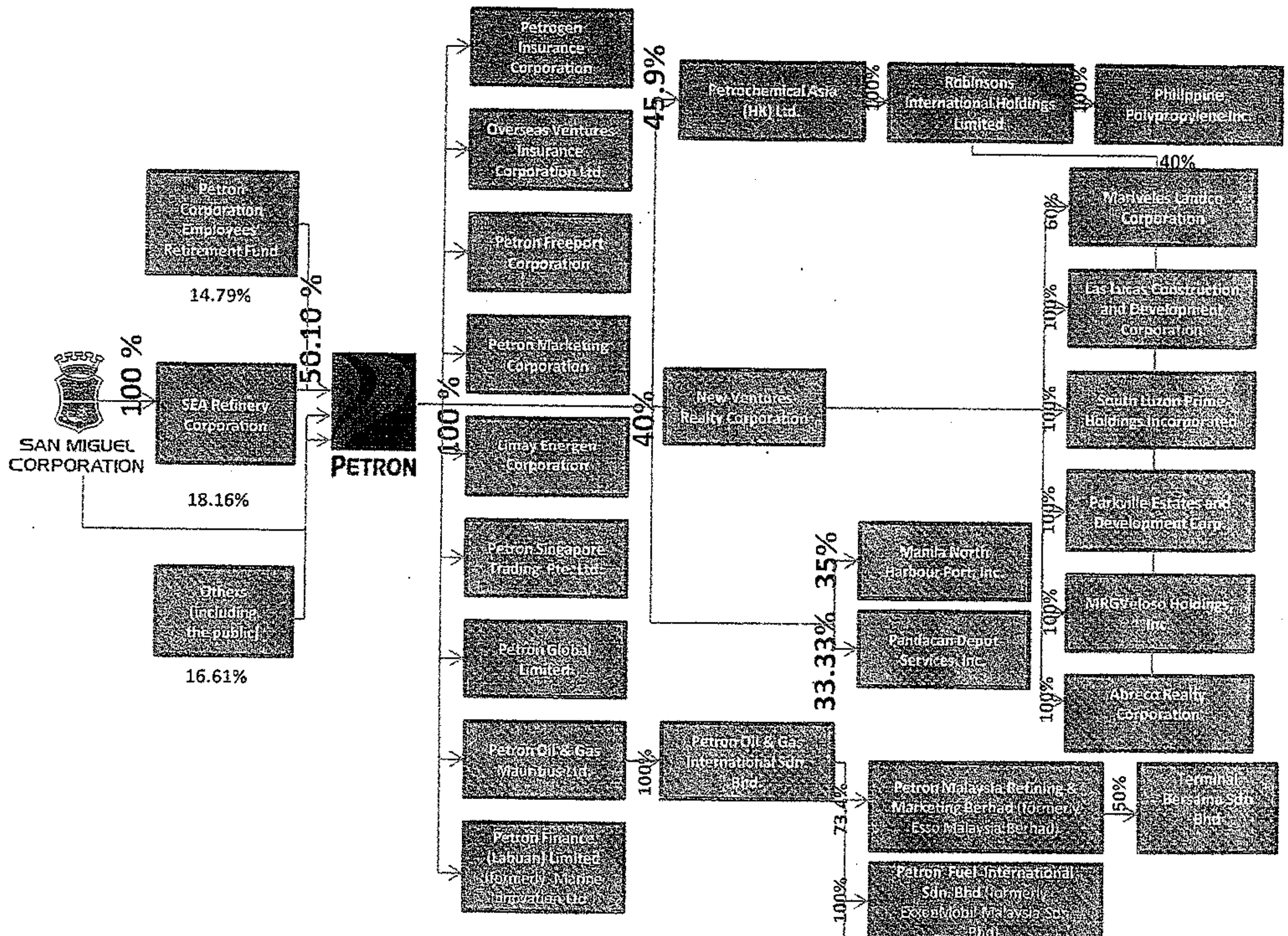
PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2013
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER		Outstanding Balance		Amount Shown as Current		Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes:										
Peso denominated:										
Fixed	Rizal Commercial Banking Corporation	P	3,528	P	32	P	3,498	6.3212% and 7.1827%	Amortized	October 2018 and 2021
Fixed	BPI Asset Management and Trust Group		5,200		5,195		5,195	8.14%	Bullet	June 2014
Fixed	BPI Asset Management and Trust Group		4,608		40		4,587	9.33%	Amortized	June 2016
Fixed	Deutsche Bank AG, Hongkong Branch		20,000		-		19,859	7.00%	Bullet	November 2017
			33,336		5,267		33,139			
Foreign currency - denominated										
Floating	Standard Chartered Bank (Hong Kong) Limited		12,177		-		11,979	LIBOR plus agreed margin	Amortized	November 2016
Floating	Standard Chartered Bank (Hong Kong) Limited		21,532		2,888		21,069	LIBOR plus agreed margin	Amortized	November 2017
			33,709		2,888		33,048			
Total Long-term Debt		P	67,045	P	8,155	P	66,187			

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2013

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at 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	7,785,912,221	34,585	1,589,157,691

PETRON & SUBSIDIARIES GROUP STRUCTURE



* *Structure as of December 31, 2013 indicating ownership of 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, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary			✔	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✔
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✔
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✔
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✔
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment			✔
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✔
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✔
PFRS 3 (Revised)	Business Combinations	✔		
PFRS 4	Insurance Contracts	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✔		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✔		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✔	
PFRS 8	Operating Segments	✔		
PFRS 9	Financial Instruments		✔	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✔	
PFRS 10	Consolidated Financial Statements	✔		
PFRS 11	Joint Arrangements	✔		
PFRS 12	Disclosure of Interests in Other Entities	✔		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✔		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✔
PFRS 13	Fair Value Measurement	✔		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✔		
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	✔		
PAS 17	Leases	✔		
PAS 18	Revenue	✔		
PAS 19 (Amended)	Employee Benefits	✔		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		✔	
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	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✔
PAS 27 (Amended)	Separate Financial Statements	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
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		✓	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
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	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting		✓	
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✔		
IFRIC 10	Interim Financial Reporting and Impairment	✔		
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes	✔		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✔		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✔		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers			✔
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✔		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
IFRIC 21	Levies			✔
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-15	Operating Leases - Incentives	✔		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✔
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✔		
SIC-29	Service Concession Arrangements: Disclosures			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts			✔
PIC Q&A 2006-02	PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	✔		
PIC Q&A 2007-01-Revised	PAS 1.103(a) – Basis of preparation of financial statements if an entity has not applied PFRSs in full			✔
PIC Q&A 2007-03	PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)			✔
PIC Q&A 2007-04	PAS 101.7 – Application of criteria for a qualifying NPAE			✔
PIC Q&A 2008-01-Revised	PAS 19.78 – Rate used in discounting post-employment benefit obligations	✔		
PIC Q&A 2008-02	PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20			✔

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✔
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 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
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2013
(Amounts in Thousand Pesos)

		(Figures based on functional currency audited financial statements)
Unappropriated Retained Earnings, beginning		P9,170,090
Adjustments: *(see adjustments in previous year's Reconciliation)*		(693,603)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		8,476,487
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	P4,339,346	
Less: Non-actual/unrealized income net of tax		
Equity in net income of jointly controlled entity	-	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-	
Unrealized actuarial gain	-	
Fair value adjustments (M2M gains)	594,850	
Fair value adjustments of Investment Property resulting to gain	-	
Retirement benefits income	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Sub-total	3,744,496	
Add: Non-actual losses		
Fair value adjustment of FVPL financial assets	20,041	
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP – loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the period	3,764,537	3,764,537
Unappropriated Retained Earnings, as adjusted, ending		12,241,024
Add (Less):		
Dividend declaration during the period	(1,421,555)	
Distributions paid	(1,674,148)	
Appropriations of retained earnings during the year	-	
Reversal of appropriations	-	
Effects of prior period adjustments (due to PAS 19)	(105,802)	
Treasury shares	-	
	(3,201,505)	(3,201,505)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		P9,039,519

Key Performance Indicators

The Company's key performance indicators are set out below.

	As of December 31			As of June 30
	2011	2012	2013	2014
Current ratio	1.5	1.0	1.0	1.1
Debt to equity ratio	1.9	2.7	2.4	2.5
Return on equity (%)	15.0	3.4	5.4	5.4
Interest rate coverage ratio	3.6	1.9	3.2	3.6
Assets to equity ratio	2.9	3.7	3.2	3.2

The manner by which the Company calculates the above performance indicators are set out below.

Current Ratio - Total current assets divided by total current liabilities

This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

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 found on the statements of financial position. A business that has a high return on equity is more likely to be one that is 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 at least 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. In essence, the function of the ratio is to determine the value of the total assets of the company, less any portion of the assets that are owned by the shareholders of the corporation.