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# SECURITIES AND EXCHANGE COMMISSION

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Industry Classification Mfg. Ofgas; Distribution Ofgaseous Fuels Through Mains  
Company Type Stock Corporation

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2014.
2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801
4. Exact name of registrant as specified in its charter PETRON CORPORATION
5. Philippines  
Province, Country or other  
jurisdiction of incorporation or  
organization
6.  (SEC Use Only)  
Industry Classification Code:
7. Mandaluyong City, 40 San Miguel Avenue, 1550  
Address of principal office Postal Code
8. (0632) 886-3888  
Registrant's telephone number, including area code
9. N/A  
(Former name, former address, and former fiscal year, if changed since last report.)
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding*
<u>Common Stock</u>	<u>9,375,104,497 Shares</u>
<u>Preferred Stock</u>	<u>100,000,000 Shares</u>
<u>Total Liabilities</u>	<u>P257,019 million</u>

\*On November 3, 2014, Petron issued 7,122,320 Series 2A Preferred Shares and 2,877,680 Series 2B Preferred Shares

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

Yes [X]      No [ ]

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

Philippine Stock Exchange

Common and Preferred Shares

12. Indicate by check mark whether the Registrant:

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

Yes [X]      No [ ]

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

Yes [X]      No [ ]

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

	<i>Note</i>	<b>Unaudited September 30 2014</b>	Audited December 31 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9,10	<b>P49,235</b>	P50,398
Financial assets at fair value through profit or loss	9,10	<b>1,471</b>	783
Available-for-sale financial assets	9,10	<b>439</b>	458
Trade and other receivables - net	9,10	<b>68,471</b>	67,667
Inventories		<b>55,787</b>	51,721
Other current assets		<b>16,888</b>	12,933
<b>Total Current Assets</b>		<b>192,291</b>	183,960
<b>Noncurrent Assets</b>			
Available-for-sale financial assets	9,10	<b>456</b>	457
Property, plant and equipment - net	5	<b>151,904</b>	141,647
Investments in associates		<b>952</b>	885
Investment property - net		<b>113</b>	114
Deferred tax assets		<b>207</b>	162
Goodwill		<b>9,522</b>	9,386
Other noncurrent assets - net	9,10	<b>11,437</b>	20,847
<b>Total Noncurrent Assets</b>		<b>174,591</b>	173,498
		<b>P366,882</b>	P357,458
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term loans	8,9,10	<b>P112,427</b>	P100,071
Liabilities for crude oil and petroleum product importation	9,10	<b>33,476</b>	38,707
Trade and other payables	9,10	<b>30,569</b>	29,291
Derivative liabilities	9,10	<b>8</b>	152
Income tax payable		<b>113</b>	194
Current portion of long-term debt - net	9,10	<b>2,957</b>	8,155
<b>Total Current Liabilities</b>		<b>179,550</b>	176,570

Forward

	<i>Note</i>	Unaudited September 30 2014	Audited December 31 2013
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	8,9,10	P69,500	P58,032
Retirement benefits liability		858	820
Deferred tax liabilities		5,084	4,605
Asset retirement obligation		1,005	1,004
Other noncurrent liabilities	9,10	1,022	4,539
<b>Total Noncurrent Liabilities</b>		<b>77,469</b>	69,000
<b>Total Liabilities</b>		<b>257,019</b>	245,570
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
Capital stock		9,475	9,475
Additional paid-in capital		9,764	9,764
Undated Subordinated Capital Securities		30,546	30,546
Retained earnings		41,453	42,658
Reserve for retirement plan		2,242	2,242
Other reserves		(434)	(721)
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>93,046</b>	93,964
Non-controlling interests		16,817	17,924
<b>Total Equity</b>		<b>109,863</b>	111,888
		<b>P366,882</b>	P357,458

*See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.*

Certified by:


  
EFREN R. GABRILLO  
Vice President - Controllers

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF INCOME**  
**(UNAUDITED)**  
**(Amounts in Million Pesos, Except Per Share Data)**

		July to September		January to September	
	<i>Note</i>	2014	2013	2014	2013
SALES	4	P121,310	P117,152	P379,540	P335,933
COST OF GOODS SOLD		117,316	109,135	363,875	318,428
GROSS PROFIT		3,994	8,017	15,665	17,505
SELLING AND ADMINISTRATIVE EXPENSES		(2,957)	(2,805)	(8,762)	(7,990)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(1,306)	(966)	(3,911)	(4,397)
INTEREST INCOME		148	301	601	983
SHARE IN NET INCOME OF ASSOCIATES		22	88	67	117
OTHER INCOME (EXPENSES) - Net		87	(182)	372	(375)
		(4,006)	(3,564)	(11,633)	(11,662)
INCOME (LOSS) BEFORE INCOME TAX		(12)	4,453	4,032	5,843
INCOME TAX EXPENSE (BENEFIT)		(200)	1,228	830	1,491
NET INCOME		P188	P3,225	P3,202	P4,352
Attributable to:					
Equity holders of the Parent Company		P180	P3,237	P3,318	P4,405
Non-controlling interests		8	(12)	(116)	(53)
		P188	P3,225	P3,202	P4,352
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	12	(P0.17)	P0.12	(P0.08)	P0.19

*See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.*

Certified by:

  
**EFREN P. GABRILLO**  
 Vice President - Controllers



**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF**  
**COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
**(Amounts in Million Pesos)**

	July to September		January to September	
	2014	2013	2014	2013
<b>NET INCOME</b>	<b>P188</b>	P3,225	<b>P3,202</b>	P4,352
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>				
Exchange differences on translation of foreign operations	369	(471)	499	122
Unrealized fair value loss on available-for-sale financial assets	(5)	(7)	(19)	(30)
Income tax benefit (expense)	(1)	1	1	3
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>363</b>	<b>(477)</b>	<b>481</b>	<b>95</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>P551</b>	P2,748	<b>P3,683</b>	P4,447
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P165</b>	P2,715	<b>P3,605</b>	P3,737
Non-controlling interests	<b>386</b>	33	<b>78</b>	710
	<b>P551</b>	P2,748	<b>P3,683</b>	P4,447

*See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.*

Certified by:


  
**EFREN P. GABRILLO**  
 Vice President - Controllers

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF**  
**CHANGES IN EQUITY**  
**(UNAUDITED)**  
**(Amounts in Million Pesos)**

	Equity Attributable to Equity Holders of the Parent Company										
	Note	Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Reserve for Retirement Plan	Other Reserves	Total	Non-controlling Interests	Total Equity
					Appropriated	Unappropriated					
As of January 1, 2014 (Audited)		P9,475	P9,764	P30,546	P25,171	P17,487	P2,242	(P721)	P93,964	P17,924	P111,888
Total comprehensive income (loss) for the period		-	-	-	-	3,318	-	287	3,605	78	3,683
Cash dividends and distributions	12	-	-	-	-	(4,523)	-	-	(4,523)	-	(4,523)
Net adjustments to non-controlling interests and others		-	-	-	-	-	-	-	-	(1,185)	(1,185)
As of September 30, 2014 (Unaudited)		P9,475	P9,764	P30,546	P25,171	P16,282	P2,242	(P434)	P93,046	P16,817	P109,863
As of January 1, 2013 (Audited)		P9,475	P9,764	P -	P25,171	P15,336	P10	(P201)	P59,555	P17,348	P76,903
Total comprehensive income (loss) for the period		-	-	-	-	4,405	-	(668)	3,737	710	4,447
Cash dividends	12	-	-	-	-	(1,422)	-	-	(1,422)	-	(1,422)
Distributions to holders of undated subordinated capital securities		-	-	-	-	(1,674)	-	-	(1,674)	-	(1,674)
Issuance		-	-	30,546	-	-	-	-	30,546	-	30,546
Net adjustments to non-controlling interests and others		-	-	-	-	-	-	-	-	(1,008)	(1,008)
As of September 30, 2013 (Unaudited)		P9,475	P9,764	P30,546	P25,171	P16,645	P10	(P869)	P90,742	P17,050	P107,792

*See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.*

Certified by:

  
**EFREN R. GABRILLO**  
Vice President - Controllers

**PETRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED INTERIM STATEMENTS OF**  
**CASH FLOWS**  
**(UNAUDITED)**  
**(Amounts in Million Pesos)**

**For the Nine Months Ended**  
**September 30**

	<i>Note</i>	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>P4,032</b>	P5,843
Adjustments for:			
Share in net income of associates		(67)	(117)
Retirement expense		74	374
Interest expense and other financing charges		3,911	4,397
Depreciation and amortization		4,470	4,176
Interest income		(601)	(983)
Unrealized foreign exchange losses - net		923	1,921
Other gains		(2,496)	(705)
Operating income before working capital changes		<b>10,246</b>	14,906
Changes in noncash assets, certain current liabilities and others		(12,112)	6,479
Interest paid		(5,909)	(5,623)
Income taxes paid		(315)	(431)
Interest received		1,745	1,031
Net cash flows provided by (used in) operating activities		<b>(6,345)</b>	16,362
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property, plant and equipment	5	(10,142)	(43,785)
Investment properties		-	1,167
Proceeds from sale of property, plant and equipment		62	14,141
Decrease (increase) in:			
Other receivables		(3,821)	(5,611)
Other noncurrent assets		7,298	117
Reductions from (additions to):			
Financial assets at fair value through profit or loss		(677)	(144)
Available-for-sale financial assets		20	58
Net cash flows used in investing activities		<b>(7,260)</b>	(34,057)

*Forward*

**For the Nine Months Ended  
September 30**

	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of loans	P263,626	P270,494
Payments of:		
Loans	(246,253)	(263,780)
Cash dividends and distributions	(5,427)	(3,864)
Proceeds from issuance of undated subordinated capital securities	-	30,546
Increase in other noncurrent liabilities	410	1,802
Net cash flows provided by financing activities	<b>12,356</b>	35,198
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>86</b>	574
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,163)</b>	18,077
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>50,398</b>	26,965
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>P49,235</b>	P45,042

*See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Interim Financial Statements.*

Certified by:

  
EFREN P. GABRILLO  
Vice President - Controllers

## **PETRON CORPORATION AND SUBSIDIARIES**

### **SELECTED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

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

Petron Corporation (the “Parent Company” or “Petron”) was incorporated under the laws of the Republic of the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. On September 13, 2013, the SEC approved the extension of the corporate term of the Company until December 22, 2066. The Company operates an integrated crude oil refinery and petrochemicals complex with a rated capacity of 180,000 barrels per day in Limay, Bataan and processes crude oil into a full range of petroleum products including gasoline, diesel, liquefied petroleum gas (LPG), jet fuel, kerosene, industrial fuel oil, and petrochemical feedstock benzene, toluene, mixed xylene, and propylene.

The registered office address of Petron is No. 40 San Miguel Avenue, Mandaluyong City.

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#### **2. Statement of Compliance**

The consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2013. The consolidated interim financial statements do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of Petron Corporation and Subsidiaries (collectively referred to as the “Group”) as at and for the year ended December 31, 2013. The audited consolidated financial statements are available upon request from the Group’s registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

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#### **3. Significant Accounting Policies**

Except as described below, the accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2013. The following changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ended December 31, 2014.

##### Adoption of New Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised standards, amendments to standards and interpretations [based on International Financial Reporting Interpretation Committee (IFRIC) Interpretations] as part of PFRS.

### *Amendments to Standards and Interpretation Adopted in 2014*

The Group has adopted the following applicable PFRS starting January 1, 2014 and accordingly, changed its accounting policies in the following areas:

- 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.
- Offsetting Financial Assets and Financial Liabilities (*Amendments to PAS 32, Financial Instruments: Presentation*). 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.
- Novation of Derivatives and Continuation of Hedge Accounting (*Amendments to PAS 39, Financial Instruments: Recognition and Measurement*). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted. However, if an entity applies the amendments for an earlier period, that it should disclose that fact. Although the amendments are applied retrospectively, if an entity has previously discontinued hedge accounting as a result of novation, then previous hedge accounting for that relationship cannot be reinstated.

Except as otherwise indicated, the adoption of these foregoing new or revised standards, amendment to standards and Philippine Interpretation of IFRIC did not have a material effect in the consolidated interim financial statements.

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

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

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

- Defined Benefit Plans: Employee Contributions (*Amendments to PAS 19, Employee Benefits*). The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e., employee contributions that are calculated according to a fixed percentage of salary). The amendments are required to be retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.
- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain a number of changes to standards with consequential amendments to other standards and interpretations.
  - Definition relating to vesting condition (*Amendment to PFRS 2, Share-based Payment*). The amendment provided for the separate definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus made the description of each condition clearer. Performance condition and service condition are defined in order to clarify various issues, including the following: (a) a performance condition must contain a service condition; (b) a performance target must be met while the counterparty is rendering service; (c) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (d) a performance condition may be a market or non-market condition and; (e) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment is required to be prospectively applied to share-based payment transactions with grant date on or after July 1, 2014.
  - Accounting for contingent consideration in a business combination (*Amendment to PFRS 3, Business Combinations*). The amendment clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial Instruments*. The amendment is required to be prospectively applied to business combination for which the acquisition date is on or after July 1, 2014.
  - Disclosures on the aggregation of operating segments (*Amendment to PFRS 8, Operating Segments*). The amendments explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (a) a brief description of the operating segments that have been aggregated; and (b) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The amendment is required to be retrospectively applied for annual periods beginning July 1, 2014.
  - Short-term receivables and payables (*Amendment to PFRS 13, Fair Value Measurement*) clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial. The amendment is required to be applied for annual periods beginning July 1, 2014.

- Key management personnel (*Amendment to PAS 24, Related Parties*). The amendment clarifies that a management entity—an entity that provides key management personnel services—is a related party subject to the related party disclosures. In addition, an entity that uses management entity is required to disclose the expenses incurred for management services. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.
- Scope exceptions for joint ventures (*Amendment to PFRS 3*). The amendment clarifies that: (a) joint arrangements are outside the scope of PFRS 3, not just joint ventures and; (b) the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.
- Scope paragraph 52 (portfolio exception) (*Amendment to PFRS 13*). The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.
- Restatement of accumulated depreciation (amortization) on revaluation (*Amendment to PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets*). The amendments clarify the requirements of the revaluation model in PAS 16 and PAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. PAS 16 and PAS 38 have been amended to clarify that, at the date of revaluation: (a) The gross carrying amount: (i) is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset – e.g., restated in proportion to the change in the carrying amount or by reference to observable market data; and (ii) the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; and (b) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset. The amendments are required to be retrospectively applied for annual periods beginning July 1, 2014.
- Clarifying the interrelationship of PFRS 3 and PAS 40, *Investment Property*, when classifying property as investment property or owner-occupied property. The amendment clarifies that the description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property. PFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16 and PAS 38*). The amendments are the following: (a) The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when: (i) revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’; or (ii) when the intangible asset is expressed as a measure of revenue; and (b) The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset – e.g. changes in sales volumes and prices. The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.



- Accounting for Acquisitions of Interests in Joint Operations (Amendments to PFRS 11, Joint Arrangements). The amendments require: (a) business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business; (b) Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control; (c) The additional interest acquired will be measured at fair value; and (d) The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is a key to determining whether the acquisition is accounted for as a business
- PFRS 9, *Financial Instruments*, replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of the financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporated new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements by aligning the accounting more closely with risk management.

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

- PFRS 15, *Revenue from Contracts with Customers*, replaces most of the detailed guidance on revenue recognition that currently exists under PFRS. The core principle of PFRS 15 is that an entity recognizes revenue to depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will apply a five-step model to determine when to recognize revenue, and at what amount. The new standard provides application guidance on numerous topics, including warranties and licenses. It also provides guidance on when to capitalize costs of obtaining or fulfilling a contract that are not addressed in other accounting standards.

PFRS 15 is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted under PFRS. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of the adoption on each line of profit or loss (the ‘cumulative effect approach’). Practical expedients are available to those taking the retrospective approach.

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#### **4. Segment Information**

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

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

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

- b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.
- c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.
- d. Sales on wholesale or retail of petroleum and non-fuel products and operation of service stations, retail outlets, restaurants, convenience stores and the like.
- e. Export sales of various petroleum and non-fuel products to other Asian countries such as China, Brunei, Taiwan, Cambodia, Malaysia, Thailand and Singapore.
- f. Sale of polypropylene resins to domestic plastic converters of yarn, film and injection moulding grade plastic products.

#### Segment Assets and Liabilities

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

#### Inter-segment Transactions

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

#### Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of and for the periods ended September 30, 2014, December 31, 2013 and September 30, 2013:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2014</b>						
Revenue:						
External sales	P377,471	P -	P -	P2,069	P -	P379,540
Inter-segment sales	185,447	93	406	-	(185,946)	-
Segment results	6,506	71	187	24	115	6,903
Net income	3,050	93	37	40	(18)	3,202
Assets and liabilities:						
Segment assets	387,790	1,772	5,165	1,053	(29,105)	366,675
Segment liabilities	260,386	553	4,084	259	(13,347)	251,935
Other segment information:						
Property, plant and equipment	146,439	-	-	237	5,228	151,904
Depreciation and amortization	4,386	-	1	34	49	4,470
Interest expense and other financing charges	3,911	-	140	-	(140)	3,911
Interest income	724	11	1	5	(140)	601
Income tax expense	806	10	16	3	(5)	830

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
December 31, 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 and other financing charges	5,461	-	189	1	(189)	5,462
Interest income	1,440	21	2	11	(189)	1,285
Income tax expense	1,747	9	14	17	63	1,850

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
September 30, 2013						
Revenue:						
External sales	P334,045	P -	P -	P1,888	P -	P335,933
Inter-segment sales	161,358	81	423	-	(161,862)	-
Segment results	9,087	62	153	47	166	9,515
Net income	4,159	106	23	61	3	4,352
Assets and liabilities:						
Segment assets	366,738	1,851	5,094	1,089	(33,874)	340,898
Segment liabilities	244,502	308	4,066	251	(19,575)	229,552
Other segment information:						
Property, plant and equipment	126,374	-	-	261	5,128	131,763
Depreciation and amortization	4,098	-	1	32	45	4,176
Interest expense and other financing charges	4,397	-	143	-	(143)	4,397
Interest income	1,098	16	2	9	(142)	983
Income tax expense	1,454	11	11	11	4	1,491

The following tables present additional information on the petroleum business segment as at and for the periods ended September 30, 2014, December 31, 2013 and September 30, 2013:

	Reseller	Lube	Gasul	Industrial	Others	Total
<b>September 30, 2014</b>						
Revenue	<b>P191,345</b>	<b>P2,774</b>	<b>P19,362</b>	<b>P118,299</b>	<b>P45,691</b>	<b>P377,471</b>
Property, plant and equipment	<b>22,650</b>	<b>156</b>	<b>415</b>	<b>165</b>	<b>123,053</b>	<b>146,439</b>
Capital expenditures	<b>2,678</b>	<b>-</b>	<b>35</b>	<b>97</b>	<b>99,532</b>	<b>102,342</b>
December 31, 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
September 30, 2013						
Revenue	P183,622	P2,474	P17,783	P95,942	P34,223	P334,044
Property, plant and equipment	20,059	202	429	153	105,531	126,374
Capital expenditures	2,851	-	69	69	83,271	86,260

### Geographical Segments

The following table presents segment assets of the Group as at September 30, 2014 and December 31, 2013:

	<b>September 30, 2014</b>	December 31, 2013
Local	<b>P279,877</b>	P284,845
International	<b>86,798</b>	72,451
	<b>P366,675</b>	P357,296

The following table presents revenue information regarding the geographical segments of the Group for the periods ended September 30, 2014, December 31, 2013 and September 30, 2013:

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
<b>September 30, 2014</b>						
Revenue:						
Local	<b>P218,268</b>	<b>P50</b>	<b>P406</b>	<b>P2,069</b>	<b>(P2,920)</b>	<b>P217,873</b>
Export/international	<b>344,650</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>(183,026)</b>	<b>161,667</b>
<b>December 31, 2013</b>						
Revenue:						
Local	P265,989	P21	P560	P2,551	(P4,676)	P264,445
Export/international	416,745	53	-	-	(217,605)	199,193
<b>September 30, 2013</b>						
Revenue:						
Local	P189,561	P44	P423	P1,888	(P1,800)	P190,116
Export/international	305,841	37	-	-	(160,061)	145,817

## **5. 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
<b>Cost:</b>							
December 31, 2012	P22,457	P48,743	P14,276	P4,142	P11,754	P57,591	P158,963
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
Additions	376	205	539	94	133	8,795	10,142
Disposals/reclassifications	436	(12)	293	(9)	2,329	1,316	4,353
Currency translation adjustment	(125)	170	107	(3)	83	(37)	195
<b>September 30, 2014</b>	<b>28,549</b>	<b>50,010</b>	<b>16,608</b>	<b>4,239</b>	<b>14,847</b>	<b>102,342</b>	<b>216,595</b>
<b>Accumulated depreciation and amortization:</b>							
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
Additions	964	1,387	983	652	77	-	4,063

(Forward)

	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
Disposals/reclassifications	(8)	(34)	(184)	(32)	422	-	164
Currency translation adjustment	27	540	59	(422)	2	-	206
<b>September 30, 2014</b>	<b>16,786</b>	<b>32,178</b>	<b>10,531</b>	<b>3,095</b>	<b>2,101</b>	<b>-</b>	<b>64,691</b>
<b>Net book value:</b>							
December 31, 2013	P12,059	P19,362	P5,996	P1,260	P10,702	P92,268	P141,647
<b>September 30, 2014</b>	<b>P11,763</b>	<b>P17,832</b>	<b>P6,077</b>	<b>P1,144</b>	<b>P12,746</b>	<b>P102,342</b>	<b>P151,904</b>

### Capital Commitments

As at September 30, 2014 and December 31, 2013, the Group has outstanding commitments to acquire property, plant and equipment amounting to P4,834 and P4,698, respectively.

## **6. Fuel Supply Contract**

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

As at September 30, 2014, the following are the fuel supply contracts granted to the Parent Company:

### NPC

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Mar 5, 2013	Mar 13, 2013	NPC Mar - May. 2013	672	34		29	1	
May 22, 2013	May 28, 2013	NPC Basco DP & Others (May - Dec. 2013 with 6 months extension) NPC Pulang Lupa DP, Lot 9 Romblon and Lot 27 Zamboanga	7,718	2,830		341	72	
May 22, 2013	June 14, 2013	(May - Dec. 2013 with 6 months extension) NPC ELO Patnanungan DP & Others	3,680			176		
June 10, 2013	August 1, 2013	(Aug - Dec 2013 with 6 months extension) NPC Lubuungan DP & Others 2014 with 6 months extension)			163			16
Nov. 12, 2013	Jan. 2, 2014	NPC Lubuungan DP & Others 2014 with 6 months extension)		54,994			1,996	
Jan. 22, 2014	Feb. 21, 2014	NPC Lubuungan DP & Others 2014 with 6 months extension) NPC ELO Patnanungan DP & Others (June- Dec 2014 with 6 months extension)		13,391			460	
Jun 3, 2014	Jul 11, 2014				251			29

## PSALM

Bid Date	Date of Award	Contract Duration	Volume in KL			Contract Price		
			DFO*	IFO*	ELO*	DFO*	IFO*	ELO*
Mar. 7, 2013	Mar. 26, 2013	Power Barge 103 (March - December 2013) Western Mindanao Power Corporation	20			0.84		
Mar. 7, 2013	Mar. 26, 2013	(March- December 2013) Naga Plant Complex Corporation	14			0.62		
May 7, 2013	May 23, 2013	(June- December 2013 with 6 months extension) Power Barge 101 & 102	73			3		
Mar. 26, 2014	Apr. 23, 2014	(April-December 2014 with 6 months extension) Power Barge 104(April-December 2014 with 6 months extension)	411			18		
Mar. 26, 2014	Apr. 23, 2014	Naga Plant Complex Corporation (April-December 2014 with 6 months extension)	260			11		
Mar. 26, 2014	Apr. 23, 2014	Southern Philippines Power Corporation (April-December with 6 months extension)	301			13		
Mar. 26, 2014	Apr. 23, 2014	Western Mindanao Power Corporation (April-December with 6 months extension)	90			4		
Mar. 26, 2014	Apr. 23, 2014	Power Barge 101 & 102 (April-December 2014 with 6 months extension)	28			1.2		
Jun 26, 2014	Jul 25, 2014	Power Barge 104(April-December 2014 with 6 months extension)		5,370			186	
Jun 26, 2014	Jul 25, 2014	Power Barge 104(April-December 2014 with 6 months extension)		9,830			335	

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

## **7. Related Party Transactions**

The Parent Company, certain subsidiaries, associate, joint venture and SMC and its subsidiaries, in the normal course of business, purchase products and services from one another. 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 September 30, 2014 and December 31, 2013 follow:

	<i>Note</i>	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plan	<i>e</i>	<b>2014</b> 2013	<b>P353</b> 777	<b>P -</b> -	<b>P6,272</b> 16,393	<b>P -</b> -	On demand/ long-term; Interest bearing	Unsecured; No impairment
Intermediate Parent	<i>a, d</i>	<b>2014</b> 2013	<b>4</b> 4	<b>91</b> 167	<b>4</b> 5	<b>-</b> 94	On demand; Non-interest bearing	Unsecured; No Impairment
Under common control	<i>a, b, c</i>	<b>2014</b> 2013	<b>17,790</b> 16,053	<b>5,042</b> 3,444	<b>2,298</b> 3,180	<b>1,073</b> 924	On demand; Non-interest bearing	Unsecured; No Impairment
Associate	<i>a</i>	<b>2014</b> 2013	<b>113</b> 86	<b>-</b> -	<b>38</b> 21	<b>-</b> -	On demand; Non-interest bearing	Unsecured; No Impairment
Joint venture	<i>b</i>	<b>2014</b> 2013	<b>-</b> -	<b>55</b> 137	<b>8</b> 8	<b>8</b> 28	On demand; Non-interest bearing	Unsecured; No impairment
		<b>2014</b>	<b>P18,260</b>	<b>P5,188</b>	<b>P8,620</b>	<b>P1,081</b>		
		2013	P16,920	P3,748	P19,607	P1,046		

- a. Sales relate to the Parent Company's supply agreements with associate and various SMC subsidiaries. Under these agreements, the Parent Company supplies the bunker, diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.
- b. Purchases relate to purchase of goods and services such as construction, information technology and shipping from a joint venture and various subsidiaries of SMC.
- c. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,802 square meters with a monthly rate of P7.7. The lease, which commenced on June 1, 2014, is for a period of one year and may be renewed in accordance with the written agreement of the parties.
- d. The Parent Company also pays SMC for its share in common expenses such as utilities and administrative fees.
- e. The Parent Company has interest bearing advances to Petron Corporation Employee Retirement Plan (PCERP), included as part of "Other receivable" and "Other noncurrent assets" accounts in the consolidated statements of financial position, for some investment opportunities.
- f. Amounts owed by related parties consist of trade and nontrade receivables, advances and security deposits.
- g. Amounts owed to related parties consist of trade and nontrade payables and other noncurrent liabilities.

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## 8. Loans and Borrowings

### Short-term Loans

The movements of short-term loans for the nine months ended September 30, 2014 follow:

Balance at January 1, 2014	<b>P100,071</b>
Loan availments	<b>247,159</b>
Loan repayments	<b>(235,140)</b>
Reclassification/Translation adjustment	<b>337</b>
Balance at September 30, 2014	<b>P112,427</b>

Average interest rates and maturities for these loans are consistent with that of December 31, 2013.

### Long-term Debt

On March 17, 2014, Petron Malaysia Refining & Marketing Bhd. (PMRMB) availed of Malaysian ringgit (MYR) 100 million (P1,374) loan and on March 31, 2014, Petron Fuel International Sdn. Bhd. (PFISB) availed of MYR50 million (P687). Additionally, on June 27, 2014, PMRMB availed of MYR 100 million (P1,359) and on July 25, 2014, PFISB availed of five-year MYR 50 million (P685) loan. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of Cost of Fund (COF) +1.5%.

On May 14, 2014, the Parent Company signed a five-year term loan facility amounting to US\$300 million. Drawdowns during the period and their respective amounts were made on the following dates: May 27 (US\$70 million); June 4 (US\$118 million); June 20 (US\$70 million) and July 2 (US\$42 million). On September 29, the Parent Company completed the syndication of its US\$300 million five-year term loan facility with 24 banks, raising the facility amount to US\$475 million (Note 15). Proceeds were used to refinance maturing and other long-term obligations. Amortization in seven equal amounts will start in May 2016, with final amortization due in May 2019.

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## 9. Financial Risk Management Objectives and Policies

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

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

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



### Risk Management Structure

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

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

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

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

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:

	<b>September 30, 2014</b>		December 31, 2013	
	<b>US dollar</b>	<b>Phil. peso Equivalent</b>	US dollar	Phil. peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	<b>543</b>	<b>24,386</b>	439	19,479
Trade and other receivables	<b>660</b>	<b>29,599</b>	899	39,926
Other assets	<b>75</b>	<b>3,387</b>	61	2,691
	<b>1,278</b>	<b>57,372</b>	1,399	62,096
<b>Liabilities</b>				
Short-term loans	<b>484</b>	<b>21,725</b>	440	19,546
Liabilities for crude oil and petroleum product importation	<b>735</b>	<b>32,973</b>	1,347	59,804
Long-term debts (including current maturities)	<b>1,011</b>	<b>45,387</b>	759	33,708
Other liabilities	<b>509</b>	<b>22,828</b>	507	22,483
	<b>2,739</b>	<b>122,913</b>	3,053	135,541
<b>Net foreign currency - denominated monetary liabilities</b>	<b>(1,461)</b>	<b>(65,541)</b>	(1,654)	(73,445)

The Group incurred net foreign currency losses amounting to P1,279 and P3,392 in September 30, 2014 and September 30, 2013, respectively, that were mainly countered by certain marked-to-market gains (losses) and hedging gains (losses) (Note 10). The foreign currency rates from Philippine peso (Php) to US dollar (US\$) as of reporting dates are shown in the following table:

	<b>Peso to US Dollar</b>
December 31, 2012	41.05
September 30, 2013	43.54
December 31, 2013	44.40
<b>September 30, 2014</b>	<b>44.88</b>

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign currency exchange movements affect reported equity in the following ways:

- through the retained earnings arising from increases or decreases in unrealized and realized foreign currency gains or losses; and
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income

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 September 30, 2014 and December 31, 2013:

	<b>P1 Decrease in the US dollar Exchange Rate</b>		<b>P1 Increase in the US dollar Exchange Rate</b>	
	<b>Effect on Income Before Income Tax</b>	<b>Effect on Equity</b>	<b>Effect on Income Before Income Tax</b>	<b>Effect on Equity</b>
<b>September 30, 2014</b>				
Cash and cash equivalents	(P224)	(476)	P224	476
Trade and other receivables	(103)	(629)	103	629
Other assets	(53)	(59)	53	59
	<b>(380)</b>	<b>(1,164)</b>	<b>380</b>	<b>1,164</b>
Short-term loans	<b>60</b>	<b>466</b>	<b>(60)</b>	<b>(466)</b>
Liabilities for crude oil and petroleum product importation	<b>2</b>	<b>734</b>	<b>(2)</b>	<b>(734)</b>
Long-term debts (including current maturities)	<b>921</b>	<b>735</b>	<b>(921)</b>	<b>(735)</b>
Other liabilities	<b>452</b>	<b>373</b>	<b>(452)</b>	<b>(373)</b>
	<b>1,435</b>	<b>2,308</b>	<b>(1,435)</b>	<b>(2,309)</b>
	<b>P1,055</b>	<b>P1,144</b>	<b>(P1,055)</b>	<b>(P1,145)</b>

December 31, 2013	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on		Effect on	
	Income Before Income Tax	Effect on Equity	Income Before Income Tax	Effect on Equity
Cash and cash equivalents	(P229)	(P370)	P229	P370
Trade and other receivables	(46)	(885)	46	885
Other assets	(44)	(48)	44	48
	(319)	(1,303)	319	1,303
Short-term loans	30	431	(30)	(431)
Liabilities for crude oil and petroleum product importation	466	1,207	(466)	(1,207)
Long-term debts (including current maturities)	759	531	(759)	(531)
Other liabilities	432	377	(432)	(377)
	1,687	2,546	(1,687)	(2,546)
	P1,368	P1,243	(P1,368)	(P1,243)

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

#### *Interest Rate Risk*

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

The Group manages its interest costs by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rates and ensures that the mark-up rates charged on its borrowings are optimal 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 pending the deployment of funds to their intended use in the Group's 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 the Group 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) by P454 and P337 for the period ended September 30, 2014 and for the year ended December 31, 2013, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These charges are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

#### *Interest Rate Risk Table*

As at September 30, 2014 and December 31, 2013, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

<b>September 30, 2014</b>	<b>&lt;1 Year</b>	<b>1-&lt;2 Years</b>	<b>2-&lt;3 Years</b>	<b>3-&lt;4 Years</b>	<b>4-&lt;5 Years</b>	<b>&gt;5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso denominated	<b>P84</b>	<b>P4,548</b>	<b>P36</b>	<b>P20,036</b>	<b>P678</b>	<b>P2,707</b>	<b>P28,089</b>
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	6.3% - 7.2%	6.3% - 7.2%	
<b>Floating Rate</b>							
Malaysian ringgit denominated (expressed in PhP)	-	<b>455</b>	<b>1,369</b>	<b>1,369</b>	<b>914</b>	-	<b>4,107</b>
Interest rate		1.5%+COF	1.5%+COF	1.5%+COF	1.5%+COF		
US\$ denominated (expressed in PhP)	<b>3,077</b>	<b>14,296</b>	<b>13,142</b>	<b>6,956</b>	<b>3,846</b>	-	<b>41,317</b>
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		
	<b>P3,161</b>	<b>P19,299</b>	<b>P14,547</b>	<b>P28,361</b>	<b>P5,438</b>	<b>P2,707</b>	<b>P73,513</b>

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

<b>December 31, 2013</b>	<b>&lt;1 Year</b>	<b>1-&lt;2 Years</b>	<b>2-&lt;3 Years</b>	<b>3-&lt;4 Years</b>	<b>4-&lt;5 Years</b>	<b>&gt;5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso denominated	<b>P5,284</b>	<b>P84</b>	<b>P4,548</b>	<b>P20,036</b>	<b>P678</b>	<b>P2,707</b>	<b>P33,337</b>
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	6.3% - 7.2%	7.2%	
<b>Floating Rate</b>							
US\$ denominated (expressed in PhP)	<b>3,076</b>	<b>12,240</b>	<b>12,240</b>	<b>6,152</b>	-	-	<b>33,708</b>
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			
	<b>P8,360</b>	<b>P12,324</b>	<b>P16,788</b>	<b>P26,188</b>	<b>P678</b>	<b>P2,707</b>	<b>P67,045</b>

\*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 the Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that includes 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:

	<b>September 30, 2014</b>	December 31, 2013
Cash in bank and cash equivalents (net of cash on hand)	<b>P44,618</b>	P46,356
Financial assets at FVPL	<b>128</b>	117
Derivative assets	<b>1,343</b>	666
Available-for-sale financial assets	<b>895</b>	915
Trade and other receivables - net	<b>68,471</b>	67,667
Due from related parties	<b>1,831</b>	10,877
Long-term receivables - net	<b>45</b>	45
Noncurrent deposits	<b>90</b>	92
	<b>P117,421</b>	P126,735

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

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

*Collaterals.* To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables. Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds and cash deposits valued at P5,159 and P4,827 as of September 30, 2014 and December 31, 2013, respectively. These securities may only be called on or applied upon default of customers.

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

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and 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 the business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "High Grade" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "Moderate Grade" refers to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

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

### *Liquidity Risk*

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives in managing its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of September 30, 2014 and December 31, 2013:

<b>September 30, 2014</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flow</b>	<b>1 Year or Less</b>	<b>&gt;1 Year - 2 Years</b>	<b>&gt;2 Years - 5 Years</b>	<b>Over 5 Years</b>
<b>Financial Assets</b>						
Cash and cash equivalents	P49,235	P49,235	P49,235	P -	P -	P -
Trade and other receivables - net	68,471	68,471	68,471	-	-	-
Due from related parties	1,831	1,831	-	1,831	-	-
Derivative assets	1,343	1,343	1,343	-	-	-
Financial assets at FVPL	128	128	128	-	-	-
AFS financial assets	895	937	477	242	218	-
Long-term receivables - net	45	45	-	-	-	45
Noncurrent deposits	90	93	-	2	11	80
<b>Financial Liabilities</b>						
Short-term loans	P112,427	P113,144	P113,144	-	-	-
Liabilities for crude oil and petroleum product importation	33,476	33,476	33,476	-	-	-
Trade and other payables (excluding taxes payable and retirement benefits liability)	29,609	29,609	29,609	-	-	-
Derivative liabilities	8	8	8	-	-	-
Long-term debts (including current portion)	72,457	84,857	6,774	22,656	52,242	3,185
Cash bonds	369	373	-	356	12	5
Cylinder deposits	593	593	-	-	-	593
Other noncurrent liabilities	38	38	-	-	1	37

December 31, 2013	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
<b>Financial Assets</b>						
Cash and cash equivalents	P50,398	P50,398	P50,398	P -	P -	P -
Trade and other receivables - net	67,667	67,667	67,667	-	-	-
Due from related parties	10,877	10,877	-	10,877	-	-
Derivative assets	666	666	666	-	-	-
Financial assets at FVPL	117	117	117	-	-	-
AFS financial assets	915	942	513	304	125	-
Long-term receivables - net	45	55	8	6	15	26
Noncurrent deposits	92	92	-	2	11	79
<b>Financial Liabilities</b>						
Short-term loans	100,071	100,532	100,532	-	-	-
Liabilities for crude oil and petroleum product importation	38,707	38,707	38,707	-	-	-
Trade and other payables (excluding taxes payable and retirement benefits liability)	28,266	28,266	28,266	-	-	-
Derivative liabilities	152	152	152	-	-	-
Long-term debts (including current portion)	66,187	79,008	11,899	15,475	48,351	3,283
Cash bonds	363	372	-	364	3	5
Cylinder deposits	210	210	-	-	-	210
Other noncurrent liabilities	3,966	3,991	-	3,938	11	42

#### *Commodity Price Risk*

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

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from downward price risk and margins of MOPS (Mean of Platts of Singapore)-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 [financial assets at fair value through profit or loss (FVPL) and available for sale (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:

	<b>September 30, 2014</b>	December 31, 2013
Total assets	<b>P366,882</b>	P357,458
Total liabilities	<b>257,019</b>	245,570
Total equity	<b>109,863</b>	111,888
Debt to equity ratio	<b>2.3:1</b>	2.2:1

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

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## **10. Financial Assets and Financial Liabilities**

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

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

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

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

derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

#### 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 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 financial assets at FVPL and derivative assets are included in this category.

The carrying values of financial assets under this category amounted to P1,471 and P783 as of September 30, 2014 and December 31, 2013, respectively.

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

Subsequent to initial 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” in 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 integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

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

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

The combined carrying values of financial assets under this category amounted to P119,672 and P129,079 as of September 30, 2014 and December 31, 2013, respectively.

*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 “AFS” account are classified under this category.

The carrying values of financial assets under this category amounted to P895 and P915 as of September 30, 2014 and December 31, 2013, respectively.

#### *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 the consolidated statements of income.

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

The carrying values of financial liabilities under this category amounted to P8 and P152 as of September 30, 2014 and December 31, 2013, respectively.

*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 non-current liabilities are included in this category.

The combined carrying values of financial liabilities under this category amounted to P248,969 and P237,770 as of September 30, 2014 and December 31, 2013, respectively.

#### 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.

#### Embedded Derivatives

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

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

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

#### Impairment of Financial Assets

The Group assesses, at 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 evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

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

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

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

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

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

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

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

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.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P49,235	P49,235	P50,398	P50,398
Trade and other receivables	68,471	68,471	67,667	67,667
Due from related parties	1,831	1,831	10,877	10,877
Long-term receivables - net	45	45	45	45
Noncurrent deposits	90	90	92	92
Loans and receivables	119,672	119,672	129,079	129,079
AFS financial assets	895	895	915	915
Financial assets at FVPL	128	128	117	117
Derivative assets	1,343	1,343	666	666
FA at FVPL	1,471	1,471	783	783
<b>Total financial assets</b>	<b>P122,038</b>	<b>P122,038</b>	<b>P130,777</b>	<b>P130,777</b>
Financial liabilities (FL):				
Short-term loans	P112,427	P112,427	P100,071	P100,071
Liabilities for crude oil and petroleum product importation	33,476	33,476	38,707	38,707
Trade and other payables (excluding taxes payable and retirement benefits liability)	29,609	29,609	28,266	28,266
Long-term debt (including current portion)	72,457	72,457	66,187	66,187
Cash bonds	369	369	363	363
Cylinder deposits	593	593	210	210
Other noncurrent liabilities	38	38	3,966	3,966
FL at amortized cost	248,969	248,969	237,770	237,770
Derivative liabilities	8	8	152	152
<b>Total financial liabilities</b>	<b>P248,977</b>	<b>P248,977</b>	<b>P237,922</b>	<b>P237,922</b>

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, 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.

*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.

*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 in 2014 and 2013 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 market rates for similar types of instruments as of reporting date.

#### Derivative Financial Instruments

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

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



### Freestanding Derivatives

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

#### *Currency Forwards*

As of September 30, 2014 and December 31, 2013, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,452 and US\$1,445, respectively, and with various maturities in 2014. As of September 30, 2014 and December 31, 2013, the net fair value of these currency forwards amounted to P1,188 and P640, 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 5.4 million barrels and 2.0 million barrels for September 30, 2014 and December 31, 2013, respectively. The estimated net receipts for these transactions amounted to P796 and P6 for September 30, 2014 and December 31, 2013, respectively.

#### *Commodity Options*

As of September 30, 2014, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 0.4 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 receipt of these call and put options as of September 30, 2014 amounted to P91.

Outstanding hedge in 2013 with notional quantities of 1.0 million barrels has an actual net payout of P41.

#### *Embedded Derivatives*

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

As of December 31, 2013, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$83 while the September 30, 2014 figure is minimal. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2013, the net negative fair value of these embedded currency forwards amounted to (P68) while the September 30, 2014 figure is minimal.

For the periods ended September 30, 2014 and December 31, 2013, the Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P2,839 and P2,514, respectively.

### 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 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 absence of a principal market, in most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

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

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

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

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

The table below analyzes financial instruments carried at fair value by valuation method:

<b>September 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P128</b>	<b>P -</b>	<b>P128</b>
Derivative assets	-	<b>1,343</b>	<b>1,343</b>
AFS financial assets	<b>804</b>	<b>91</b>	<b>895</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(8)</b>	<b>(8)</b>

<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Financial Assets:			
FVPL	<b>P117</b>	<b>P -</b>	<b>P117</b>
Derivative assets	-	<b>666</b>	<b>666</b>
AFS financial assets	<b>757</b>	<b>158</b>	<b>915</b>
Financial Liabilities:			
Derivative liabilities	-	<b>(152)</b>	<b>(152)</b>

The Group has no financial instruments valued based on Level 3 as of September 30, 2014 and December 31, 2013. During the period, 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.

## **11. Significant Transactions During the Period**

- a. On February 6, 2014, the Parent Company paid distributions amounting to US\$28.125 million (P1,824) to the holders of the Undated Subordinated Capital Securities (USCS) issued by the Parent Company.
- b. On March 27, 2014, PCERP sold 470,000,000 common shares of the Parent Company at a price of P11.50 per share through the facilities of the Philippine Stock Exchange with settlement date of April 1, 2014.
- c. On August 6, 2014, the Parent Company paid distributions amounting to US\$28.125 million (P1,756) to the holders of USCS.
- d. On March 13, 2014, the Parent Company acquired 12,685,350 common shares of Petron Global Limited (PGL) for US\$1 per share or for a total consideration of US\$12,685,350. Further, on September 26, 2014, the Parent Company acquired an additional 11,251,662 common shares of PGL for US\$1 per share or for a total consideration of US\$11,251,662.

As of September 30, the Parent Company holds a total of 73,559,188 common shares in PGL representing 100% of the voting capital stock of PGL.

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## 12. Basic and Diluted Earnings Per Share

Basic and diluted earnings per share amounts for the nine months ended September 30, 2014 and 2013 are computed as follows:

	2014	2013
Net income attributable to equity holders of the Parent Company	<b>P3,318</b>	P4,405
Dividends on preferred shares for the period	<b>476</b>	953
Distributions paid to the holders of USCS	<b>3,580</b>	1,674
Net income attributable to common shareholders of the Parent Company (a)	<b>(P738)</b>	P1,778
Weighted average number of common shares outstanding (in millions) (b)	<b>9,375</b>	9,375
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	<b>(P0.08)</b>	P0.19

As at September 30, 2014 and 2013, the Group has no dilutive debt or equity instruments.

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## 13. Dividends

- a. On March 24, 2014, the BOD approved cash dividends of P0.05 per share for common shareholders as of April 8, 2014 which was paid on April 23, 2014.
- b. On May 6, 2014, the BOD approved cash dividends of P2.382 per share for the preferred shareholders as of May 21, 2014 which was paid on June 5, 2014.
- c. On August 6, 2014, the BOD approved cash dividends of P2.382 per share for the preferred shareholders as of August 22, 2014 which was paid on September 5, 2014.

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## 14. Commitments and Contingencies

### Supply and Lease Agreements

The Parent Company assigned all its rights and obligations to Petron Singapore Trading Pte. Ltd. (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 November 1, 2013 to December 31, 2014 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 at September 30, 2014 and December 31, 2013.

On September 30, 2009, New Ventures Realty Corporation (NVRC) entered into a 30-year lease with Philippine National Oil Company (PNOC) without rent-free period, covering a property which is being used 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 at September 30, 2014, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

#### Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has unused letters of credit totaling approximately P31,437 and P29,176 as at September 30, 2014 and December 31, 2013, respectively.

#### Tax Credit Certificates-Related Matters

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 September 30, 2014.

#### Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the 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. Petron filed its appellant's reply brief on February 11, 2014. As of September 30, 2014, the appeal remained pending.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016. As of September 30, 2014, the petitions remained pending.

#### Oil Spill Incident in Guimaras

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

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against the Parent Company. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former President and Chairman of the Parent Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration. The external counsel for Petron advised that the case was no longer elevated to a higher court but the entry of judgment has not yet been issued by the trial court.

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 September 30, 2014.

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#### **15. Events After the Reporting Period**

- a. On October 24, 2014 and November 6, 2014, the Parent Company made drawdowns amounting to US\$70 million and US\$105 million, respectively, from the US\$475 million term loan facility (Note 8). Proceeds were used to refinance other long-term obligations.
- b. The Executive Committee of Petron, pursuant to the authority delegated to it by the Board of Directors at the board meeting held on August 6, 2014, approved at its meeting held on September 6, 2014 the public offering of preferred shares of Petron amounting to P7 billion, with an oversubscription option of up to P3 billion.

The issue consisted of ten million cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares, inclusive of the three million shares issued upon the exercise of the oversubscription option (collectively, the "Series 2 Preferred Shares") . The Series 2 Preferred Shares were issued in two (2) series - Series 2A Preferred Shares ("Series 2A") and Series 2B Preferred Shares ("Series 2B"). The offer price was P1,000.00 per share, with the following dividend rates:

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

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

Cash dividends will be payable on February 3, May 3, August 3, and November 3 of each year, as and if declared by the Board of Directors.

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

- c. On November 7, 2014, the BOD approved cash dividends of P2.382 per share for the preferred shareholders with the following record and payment dates:

<u>Period</u>	<u>Record Date</u>	<u>Payment Date</u>
Fourth Quarter, 2014	November 24, 2014	December 5, 2014
First Quarter, 2015	February 18, 2015	March 5, 2015

- d. On November 7, 2014, the BOD approved the early redemption on March 5, 2015 of the preferred shares issued by the Parent Company in 2010.
- e. On November 7, 2014, the BOD approved the early redemption on December 5, 2014 of P4.8 billion Fixed Rate Corporate Notes (FXCN) of the Parent Company.

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## 16. Other Matters

- a. There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.
- b. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended September 30, 2014.



- c. Known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity:

#### Gross Domestic Product (GDP)

GDP growth of 6.4% in the second quarter is an improvement from first quarter growth of 5.6%, but lower compared to the 7.9% growth in the same quarter last year. Drivers of the second quarter growth are healthy exports (10.3% growth) and household expenditure (5.3% growth) supported by high OFW remittances. Meanwhile, government expenditure and capital formation stagnated with 0.02% and 2.4% decline respectively. By industrial origin, all sectors exhibited strong growth with industry sector expanding by 7.8%, services sector by 6.0%, and agriculture sector by 3.6%.

#### 91-Day Treasury-Bill (T-bill) Rate

91-day T-bills averaged 1.258% in the third quarter 2014 (3Q14), significantly higher compared to 0.668% in the same quarter last year, but slightly lower than 1.274% in the previous quarter. T-bill rates in 2014 are going up from last year's low levels due to higher inflation, foreign funds outflow and expectations of increased interest rates in the US as the US Federal Reserve (US Fed) winds down its quantitative easing (QE) program this year.

#### Peso-Dollar Exchange Rate

Peso averaged P43.8/\$ in the 3Q14, a slight depreciation from the P43.7/US\$ average in 3Q13, and an improvement from last quarter's P44.1/\$ average. This brings YTD September 2014 average at P44.3/\$, 5% much weaker compared to P42.0/\$ average in the same period last year. The Peso weakened in 2014 as external financial volatilities and investor risk aversion in emerging economies intensified due to US Fed's tapering of its QE program.

#### Inflation

The prices of commodities and services remained elevated in the third quarter averaging 4.7% from 4.3% in the previous quarter, bringing year-to-date (YTD) September 2014 inflation at 4.4%, a big increase from 2.8% average in the same period last year. The uptick in inflation was due to higher food prices, particularly- rice, meat, oil, fruits and vegetables, owing to tightness in supply brought about by weather-related disruptions in production and decline in buffer stocks (for rice). The first half (1H) 2014 average inflation, despite being higher compared to last year, still falls within the government target range of 3-5% in 2014.

#### Dubai price (Dubai)

Oil prices plunged in the 3Q with Dubai dropping to a low of \$94/bbl in end-September from about \$110/bbl in end-June. 3Q14 Dubai averaged \$101.4/bbl, lower than 2Q14's \$106.13/bbl average. Prices in the 3Q dropped due to abundant supply in the oil market with increased production in the US, coupled by easing demand growth in China, India and Europe. The Middle East oil producers are also cutting crude prices to be competitive in the oil market.

### Industry Oil Demand

Preliminary data from DOE shows that as of August 2014, total oil industry demand (excluding lubes and greases) grew by 4.6% to 81.7 million barrels (336.3 MBD) from 78.2 million barrels (321.7 MBD) in same period in 2013. Favorable business environment with high economic growth, manageable inflation, growing OFW remittances, and rising vehicle sales supported growth in oil demand. Tightness in power supply has also prompted the higher utilization of oil-based power plants.

*Tight industry competition.* Competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of YTD August 2014, the new players (excluding direct imports) have collectively cornered around 26.2% of the total oil market. Collectively, the new players are leading the LPG market segment with 65.6% market share.

*Illegal trading practices.* Cases of smuggling and illegal trading (e.g. “bote-bote” retailing, illegal refilling) continue to be a concern. These illegal practices have resulted in unfair competition among players.

Known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation:

### Existing or Probable Government Regulation

*Philippine National Standard (PNS) Specification for E-Gasoline.* DOE issued Department Circular 2013-09-0021, dated September 19, 2013 and which took effect on October 7, 2013, revising the PNS for gasoline. This Circular prescribes the new Research Octane Number (RON) rating for gasoline as follows: (i) regular grade at 91 RON minimum; (ii) premium grade at 95 RON minimum; and (iii) premium plus at 97 RON minimum.

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

*Biofuels Act of 2006.* The Biofuels Act of 2006 mandates that ethanol comprise 5% of total gasoline volumes, and diesel contain 2% coco methyl ester (CME) systems. By February 2012, all gasoline grades should contain 10% ethanol. However, the DOE extended an exemption to regular gasoline and gasoline with above 97 RON from the mandated ethanol content pending completion of technical testing on ethanol compatibility with motor vehicle engines especially the 2-stroke motorcycle engines. For diesel, increasing CME content to 5% is currently being evaluated.

To produce compliant fuels, the Company invested in CME injection systems at the refinery and depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the Company already started selling ethanol blended gasoline in selected service stations in Metro Manila in May 2008.

Currently, the increase in CME content to 5% for diesel and the continued exemption of 97 RON from ethanol content are being evaluated. Meanwhile, regular gasoline's RON specification was upgraded to minimum 91RON based on DOE's DC2013-09-0021, effectively removing the exemption of regular gasoline from the ethanol content mandate.

*Laws on Oil Pollution.* To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels for transporting black products beginning end-2008 and by January 2012 for white products.

Petron is already using double-hull vessels in transporting all products.

*Clean Air Act.* The Clean Air Act mandated standards on emissions of stationary and mobile sources and fuel sulfur specifications that will enable meeting the emission standards. Petron invested in a Gasoil Hydrotreater Plant and in an Isomerization Plant to enable it to produce diesel and gasoline compliant with the standards set by law.

*Liquefied Petroleum Gas (LPG) Bill.* This bill aims to ensure safe practices and quality standards and mitigate unfair competition in the LPG sector. All participants in the LPG business (e.g. refillers, cylinder seal suppliers, cylinder requalifiers, repairers, scrapping centers etc.) must obtain a license/accreditation/certification from appropriate government agencies (e.g. Department of Energy, Department of Trade and Industry etc.) before they operate. The Bill also imposes penalties on underfilling, underdelivering, illegal refilling and storage, sale or distribution of LPG-filled cylinders without seals, illegal possession of LPG cylinder seal, hoarding, and importation of used or second-hand LPG cylinders, refusal of inspection, and non-compliance to standards.

*Inclusion of LPG and kerosene in Price Act.* Republic Act No. 10623, which was signed into law by the President of the Philippines on September 6, 2013, amended the Price Act to include household LPG and kerosene, among others, to the list of basic necessities which are under strict monitoring by the government. Prices of these goods can be subject to price control or price ceiling in the event of emergencies, calamities, war, rebellion, etc.

*Compliance with Euro 4 standards.* The Department of Environment and Natural Resources (DENR) issued on September 2010 an administrative order (AO 2010-23) mandating that by 2016, all new motor vehicles that will be introduced in the market shall comply with Euro 4 emission limits subject to Euro 4 fuel availability. The oil industry is currently conducting discussions on the fuel specification requirements to comply with the DENR administrative order come 2016.

**PETRON CORPORATION AND SUBSIDIARIES**

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**RECEIVABLES**

**As of September 30, 2014**

**(Amounts in Million Pesos)**

Breakdown:

Accounts Receivable – Trade	<b>P25,798</b>
Accounts Receivable – Non-Trade	42,673
<b>Total Accounts Receivable</b>	<b>P68,471</b>

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**AGING OF TRADE ACCOUNTS RECEIVABLES**

Receivables	1 – 30 days	P24,499
	31 – 60 days	79
	61 – 90 days	381
	Over 90 days	1,658
<b>Total</b>		<b>26,617</b>
Allowance for doubtful accounts		819
<b>Accounts Receivable – Trade</b>		<b>P25,798</b>

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## Interim Financial Report as of September 30, 2014

### Management's Discussion and Analysis of Financial Performance and Financial Position

#### Financial Performance

##### 2014 vs 2013

During the nine-month period, Petron Corporation earned a consolidated net income of **₱ 3.20 billion**, lower by **₱ 1.15 billion** or 26% vis-à-vis last year's **₱ 4.35 billion** due to depressed margins experienced in the third quarter of 2014. This emanated from the sharp decline of the reference crude Dubai from a high of US\$109.2/bbl on July 1 to US\$94/bbl on September 29 due to the ample crude oil supply amid weak demand globally. Similarly, regional reference prices for products significantly dropped which triggered the company to implement price rollbacks amid high-priced inventories.

(In Million Pesos)	2014	2013	Variance- Fav (Unfav)	
			Amt	%
Sales	379,540	335,933	43,607	13
Cost of Goods Sold	363,875	318,428	(45,447)	(14)
Gross Margin	15,665	17,505	(1,840)	(11)
Selling and Administrative Expenses	8,762	7,990	(772)	(10)
Non-operating Charges	2,871	3,672	801	22
Net Income	3,202	4,352	(1,150)	(26)
EBITDA	12,233	14,175	(1,942)	(14)
Sales Volume (MB)	64,656	60,240	4,416	7
Earnings (Loss) per Share	(0.08)	0.19	(0.27)	(High)
Return on Sales (%)	0.8	1.3	(0.5)	(38)

**Earnings before interest, taxes, depreciation and amortization (EBITDA)** amounted to **₱ 12.23 billion** and stood 14% below last year's **₱ 14.18 billion** level owing to a weaker operating income.

**Loss per share** of **₱ 0.08** was realized during the period vis-à-vis 2013's earnings per share of **₱ 0.19** while **return on sales** was reduced from 1.3% to **0.8%**.

**Gross margin (GM)** plunged by 11% (or **₱ 1.84 billion**) to **₱ 15.67 billion** from **₱ 17.51 billion** a year earlier. The following accounted for the variances:

- ◆ **Sales volume** for the first three quarters of 2014 reached **64.66 million barrels (MMB)**, higher by 7% or 4.42 MMB from prior year's 60.24 MMB due to robust demand from the power generation sector, growth in retail sales from the 2,700+ service stations in the Philippines and in Malaysia, and from higher demand of jet fuel by aviation accounts in Malaysia.
- ◆ **Net sales revenue** rose by 13% from **₱ 335.93 billion** to **₱ 379.54 billion** driven by the combined effect of higher sales volume and price. The increase in selling price was traced to the depreciation of Philippine Peso (PHP) against the US Dollar (USD) from an average of **₱ 42.07** in 2013 to **₱ 44.26** this year.

- ◆ **Cost of Goods Sold (CGS)** surged by 14% to **₱ 363.88 billion** from last year's ₱ 318.43 billion similarly due to the incremental volume sold and higher average cost per liter (2014: ₱ 35.40 vs. 2013: ₱ 33.25). Higher cost was also triggered by the weakening of the PHP versus the USD partly tempered by cheaper FOB of crude that went into CGS.
- ◆ **Refinery Expenses including Refinery Fuel** in the Philippines which formed part of the total CGS amounted to **₱ 8.13 billion**, 3% or ₱ 0.29 billion less than the ₱ 8.42 billion incurred last year. The decline emanated largely from lower maintenance and repairs due to longer turnaround period of various process units and replacement of defective hoses in 2013.
- ◆ **Selling and Administrative Expenses (OPEX)** climbed to **₱ 8.76 billion** from the ₱ 7.99 billion expenditure a year ago traced to rent and depreciation of additional service stations, escalated insurance premium on dollar-denominated Industrial All Risk policy, and increase in advertising and technical support cost for Petron Malaysia (PM). OPEX per liter of volume sold was slightly higher by ₱ 0.02 to close at ₱ 0.85.
- ◆ **Net Financing Costs and Other Income** decreased by 22% to **₱ 2.87 billion** from previous year's ₱ 3.67 billion. The reduction came from lower net translation losses, higher capitalized interest, and unrealized commodity hedging gain partly offset by the absence of gain on sale of Petron MegaPlaza in 2013, higher hedging cost and lower interest income on advances to an affiliate.

### 2013 vs 2012

Petron Corporation posted a consolidated net income of **₱ 4.35 billion** for its Philippine and Malaysian operations in the first three quarters of 2013, remarkably higher than the ₱ 559 million earnings reported in the same period last year. The increase was brought about by the 13% jump in sales volume, better refining margins and lower financing charges. Petron Malaysia (PM) contributed ₱ 407 million to this year's income.

(In Million Pesos)	2013	Restated	Variance- Fav (Unfav)	
		2012	Amt	%
<b>Sales</b>	<b>335,933</b>	<b>307,341</b>	<b>28,592</b>	<b>9</b>
<b>Cost of Goods Sold</b>	<b>318,428</b>	<b>294,799</b>	<b>(23,629)</b>	<b>(8)</b>
<b>Gross Margin</b>	<b>17,505</b>	<b>12,542</b>	<b>4,963</b>	<b>40</b>
<b>Selling and Administrative Expenses</b>	<b>7,990</b>	<b>7,439</b>	<b>(551)</b>	<b>(7)</b>
<b>Non-operating Charges</b>	<b>3,672</b>	<b>4,526</b>	<b>854</b>	<b>19</b>
<b>Net Income</b>	<b>4,352</b>	<b>559</b>	<b>3,793</b>	<b>High</b>
<b>EBITDA</b>	<b>14,175</b>	<b>9,182</b>	<b>4,993</b>	<b>54</b>
<b>Sales Volume (MB)</b>	<b>60,240</b>	<b>53,156</b>	<b>7,084</b>	<b>13</b>
<b>Earnings (Loss) per Share</b>	<b>0.19</b>	<b>(0.05)</b>	<b>0.24</b>	<b>High</b>
<b>Return on Sales (%)</b>	<b>1.3</b>	<b>0.2</b>	<b>1.1</b>	<b>High</b>

*Note: 2012 Consolidated Statement of Income is restated to reflect the effect of the adoption of the amended PAS 19- Employee Benefits*

With improved bottom line, **earnings before interest, taxes, depreciation and amortization (EBITDA)** also surpassed the ₱ 9.18 billion level a year earlier to **₱ 14.18 billion** this year.

**Earnings per share** stood at **₱ 0.19** while **return on sales** increased to **1.3%** from 0.2%.

**Gross margin (GM)** grew by 40% to **₱ 17.51 billion** from previous year's ₱ 12.54 billion. The following account for the increase in margin:

- ◆ **Sales volume** for the period increased by 13% to **60.2 million barrels (MMB)** from last year's 53.2MMB with the full consolidation of PM. In 2012, consolidation started only in the second quarter.
- ◆ **Net sales revenue** surged by 9% to **₱ 335.93 billion** from ₱ 307.34 billion in the previous year. PM contributed 40% or ₱ 135.71 billion to the total sales.
- ◆ **Cost of Goods Sold (CGS)** increased to **₱ 318.43 billion** from last year's ₱ 294.80 billion similarly due to the full consolidation of PM which contributed 41% or ₱ 130.91 billion to the total CGS.
- ◆ **Refinery Operating Expenses** in the Philippines which formed part of the total CGS amounted to **₱ 4.87 billion** and exceeded the ₱ 4.80 billion last year. The slight increase in expenses was attributed primarily to higher employee costs due to additional manpower count.
- ◆ **Selling and Administrative Expenses** went up by 7% to **₱ 7.99 billion** from last year's ₱ 7.44 billion expenditures mainly due to the full consolidation of PM which added ₱2.62 billion to the total operating expense (Opex). Conversely, Petron Philippines' (PP) Opex dropped by 7% due to lower employee costs and advertising expenses as well as the absence of expenses related to the acquisition of PM in 2012. Consolidated Opex per liter of volume sold stood lower at ₱ 0.83 from last year's ₱ 0.88.

**Net Financing Costs and Other Charges** fell by 19% to **₱ 3.67 billion** from the ₱ 4.53 billion level a year ago. The favorable variance came from higher capitalized interest and interest income, and gains from commodity hedging transactions and sale of Petron Megaplaza partly offset by net translation loss on dollar denominated transactions. PM added 54% or ₱ 1.62 billion to this year's total charges.

## Financial Condition

### 2014 vs 2013

**Petron's consolidated assets as of September 30, 2014** climbed further by **3% (₱ 9.42 billion) to ₱ 366.88 billion**, from end-December 2013 level of ₱ 357.46 billion brought about by the increases in Property, plant and equipment, inventories and other current assets tempered by the drop in other non-current assets.

**Financial assets at fair value through profit or loss** grew by 88% (₱ 688 million) to **₱ 1.47 billion**, stemmed from higher marked-to-market value of outstanding foreign currency forwards.

**Inventories** surged by 8% from ₱ 51.72 billion to **₱ 55.79 billion** essentially on account of higher volume of crude for PM and finished product for both PP and PM.

**Other current assets** of **₱ 16.89 billion** exceeded the ₱ 12.93 billion level in December 2013 by 31% traced to PP's additional excess input VAT on imported raw materials and various prepayments such as taxes, insurance and rent.

**Property, plant and equipment - net** of accumulated depreciation, swelled 7% from ₱ 141.65 billion to **₱ 151.90 billion** mainly due to PP's on-going construction of the Refinery Master Plan-2 (RMP-2) and network expansion program as well as the refurbishment and rebranding of service stations in Malaysia.

**Investment in associates** reached **₱ 952 million** after considering the ₱ 67 million share in the net income of Manila North Harbour Port, Inc. (MNHPI).

**Deferred tax assets** went up by 28% (₱ 45 million) to **₱ 207 million** owing to the temporary differences of PM.

**Other noncurrent assets-net** dropped 45% from ₱ 20.85 billion in December 2013 to **₱ 11.44 billion** in September 2014 owing to the partial collection of advances to PCERP.

**Derivative liabilities of ₱ 8 million** registered a remarkable 95% dip from the ₱ 152 million level as at end of 2013 attributed to lower loss on outstanding transactions with embedded derivatives.

**Short-term loans and liabilities for crude oil and petroleum product importation** posted 5% hike to close at **₱ 145.90 billion** in September 2014 brought about by higher borrowing level of both PP and PSTPL.

**Long-term debt inclusive of current portion** escalated by 9% (₱ 6.27 billion) essentially on account of the newly availed loan of PM and PP.

**Income tax payable** declined by 42% from ₱ 194 million to **₱ 113 million**, principally on account of lower taxes payable of Petron Malaysia.

**Retirement benefits liability** rose by P38 million due to higher pension expense of PM.

**Deferred tax liabilities-net** climbed by ₱ 479 million (10%) to **₱ 5.08 billion** largely attributed to PP's unrealized gains and additional capitalized interest partly offset by the provision from the resulting net operating loss and payment of minimum corporate income tax.

**Other noncurrent liabilities** significantly dropped to **₱ 1.02 billion** from ₱ 4.54 billion in December 2013 due to the reclassification of the maturing retention payable to trade and other payables account as part of current liabilities.

The negative **₱ 434 million Other reserves** as of end-September 2014 showed a 40% reduction from negative ₱ 721 million level as of end December 2013 on account of the translation gain on equity in foreign subsidiaries.

**Non-controlling interests** closed at **₱ 16.82 billion** which is 6% lower than at end 2013 level brought about by the payment of dividend to preferred shareholders of PGL and common stockholders of PMRMB.

## **2013 vs 2012**

As of September 30, 2013, Petron's **consolidated assets** stood at **₱ 341 billion, 22%** or **₱ 60.67 billion** higher than the ₱ 280.33 billion level as at end-December 2012 largely due to the increases in property, plant and equipment as well as cash and cash equivalents.

**Cash and cash equivalents** grew by 67% or ₱ 18.08 billion to **₱ 45.04 billion**. Funds generated from operations and sale of Power plant accounted for the increase in cash.

**Financial assets at fair value through profit or loss** climbed from ₱ 186 million to **₱ 325 million** brought about by PM's outstanding foreign currency forwards.



**Trade and other receivables - net** rose from ₱ 57.73 billion to **₱ 63.30 billion** owing to PP's higher receivables from the government, from Retirement Fund and from counter-party banks for commodity hedging gains.

**Inventories** increased by 16% (₱ 7.99 billion) to **₱ 57.57 billion** due to higher volume of crude and finished product importations of PP.

**Other current assets** ended higher by 24% from ₱ 10.75 billion to **₱ 13.35 billion** emanated from PP's additional input VAT.

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

**Available-for-sale financial assets** (current and non-current) of **₱ 853 million** dropped by 6% (₱ 58 million) with the maturity of government securities of local insurance subsidiary.

**Property, plant and equipment - net** escalated by 27% (₱ 27.65 billion) from ₱ 104.11 billion to **₱ 131.76 billion** traceable to major capital projects at the Refinery specifically the RMP-2, as well as PM's rebranding of service stations, partly reduced by the sale of power plant.

**Investment in associates** went up by 7% from ₱ 1.64 billion to **₱ 1.76 billion** on account of the company's share in net income of MNHPI.

**Deferred tax assets** rose by 36% to **₱ 106 million** basically from PM's temporary differences.

**Short-term loans and liabilities for crude oil and petroleum product importations** increased by 5% from ₱ 124.70 billion to **₱ 130.32 billion** due to higher volume of finished product importations.

**Trade and other Payables** of **₱ 25.66 billion** grew by 73% (₱ 10.79 billion) attributed to higher liabilities to company's contractors and suppliers.

**Derivative Liabilities** of **₱ 615 million** more than doubled the end-December 2012 balance of ₱ 245 million due to higher marked-to-market loss on outstanding foreign currency forwards.

**Income tax payable** increased significantly from ₱ 52 million to **₱ 246 million** mainly from the taxes payable of PM.

**Long-term debt inclusive of current portion** grew by 19% (₱ 10.52 billion) to **₱ 66.53 billion** with the final drawdown of US\$210 million loan in January 2013 from the US\$485 million loan contracted last year.

**Deferred tax liabilities** rose by 17% from ₱ 3.14 billion to **₱ 3.66 billion** due to company's utilization of minimum corporate income tax and net operating loss carried over from previous year.

**Asset retirement obligation** increased by 5% from ₱ 997 million to **₱ 1.05 billion** owing to the accretion expense for the year of company's service stations and depots/terminals.

**Other noncurrent liabilities** grew by 69% (₱ 1.68 billion) to **₱ 4.12 billion** essentially on account of higher retention payable to contractors.

**Total equity** amounted to **₱ 107.79 billion**, and registered a 40% (₱ 30.89 billion) increase from the end-December 2012 level of ₱ 76.90 billion primarily traced to the ₱ 30.55 billion undated subordinated capital securities issued during the first quarter.

## Cash Flows

For the first three quarters of 2014, funds generated from operations were not enough to support the increase in working capital requirements and payment of interests. Meanwhile, proceeds from additional loans and collection of advances from retirement plan were used to finance additional capital expenditures at the Refinery, construction and refurbishment of service stations at PP and PM, and for payment of dividends/distributions to holders of USCS.

In Million Pesos	September 30, 2014	September 30, 2013	Change
Operating inflows (outflows)	(6,345)	16,362	(22,707)
Investing outflows	(7,260)	(34,057)	26,797
Financing inflows	12,356	35,198	(22,842)

## Discussion of the company's key performance indicators:

Ratio	September 30, 2014	December 31, 2013
Current Ratio	1.1	1.0
Debt to Equity Ratio	2.6	2.4
Return on Equity (%)	3.9	5.4
Interest Rate Coverage Ratio	3.1	3.2
Assets to Equity Ratio	3.3	3.2

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

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

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

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

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

This ratio reveals how much profit a company earned in comparison to the total amount of shareholder equity 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 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.

## **PART II – OTHER INFORMATION**

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

NONE.

## SIGNATURES

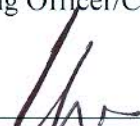
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: PETRON CORPORATION

Signature and Title:   
\_\_\_\_\_  
JOEL ANGELO C. CRUZ  
Vice President - General Counsel  
and Corporate Secretary

Date: November 14, 2014

Principal Financial/Accounting Officer/Controller

Signature and Title:   
\_\_\_\_\_  
EFREN P. GABRILLO  
Vice President - Controllers

Date: November 14, 2014