

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 June 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>P251,083 million</u>

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).

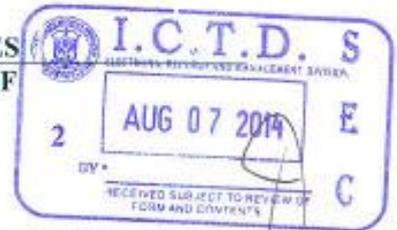
Yes [X] No []

(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>	Unaudited June 30 2014	Audited December 31 2013
ASSETS			
Current Assets			
Cash and cash equivalents	9,10	P43,078	P50,398
Financial assets at fair value through profit or loss	9,10	339	783
Available-for-sale financial assets	9,10	396	458
Trade and other receivables - net	9,10	68,427	67,667
Inventories		61,635	51,721
Other current assets		16,566	12,933
Total Current Assets		190,441	183,960
Noncurrent Assets			
Available-for-sale financial assets	9,10	131	457
Property, plant and equipment - net	5	150,097	141,647
Investments in associates		930	885
Investment property - net		114	114
Deferred tax assets		173	162
Goodwill		9,453	9,386
Other noncurrent assets - net	9,10	11,561	20,847
Total Noncurrent Assets		172,459	173,498
		P362,900	P357,458
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	8,9,10	P105,625	P100,071
Liabilities for crude oil and petroleum product importation	9,10	38,241	38,707
Trade and other payables	9,10	30,098	29,291
Derivative liabilities	9,10	316	152
Income tax payable		301	194
Current portion of long-term debt - net	9,10	2,864	8,155
Total Current Liabilities		177,445	176,570

Forward

	<i>Note</i>	Unaudited June 30 2014	Audited December 31 2013
Noncurrent Liabilities			
Long-term debt - net of current portion	<i>8,9,10</i>	P65,810	P58,032
Retirement benefits liability		851	820
Deferred tax liabilities		5,005	4,605
Asset retirement obligation		1,005	1,004
Other noncurrent liabilities	<i>9,10</i>	967	4,539
Total Noncurrent Liabilities		73,638	69,000
Total Liabilities		251,083	245,570
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		9,475	9,475
Additional paid-in capital		9,764	9,764
Undated Subordinated Capital Securities		30,546	30,546
Retained earnings		43,272	42,658
Reserve for retirement plan		2,242	2,242
Other reserves		(419)	(721)
Total Equity Attributable to Equity Holders of the Parent Company		94,880	93,964
Non-controlling interests		16,937	17,924
Total Equity		111,817	111,888
		P362,900	P357,458

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 INCOME
(UNAUDITED)
(Amounts in Million Pesos, Except Per Share Data)

		April to June		January to June	
	<i>Note</i>	2014	2013	2014	2013
SALES	4	P133,056	P106,783	P258,230	P218,781
COST OF GOODS SOLD		127,699	103,595	246,559	209,293
GROSS PROFIT		5,357	3,188	11,671	9,488
SELLING AND ADMINISTRATIVE EXPENSES		(2,915)	(2,598)	(5,805)	(5,185)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		(1,369)	(1,223)	(2,605)	(3,431)
INTEREST INCOME		164	337	453	682
SHARE IN NET INCOME OF ASSOCIATES		29	25	45	29
OTHER INCOME (EXPENSES) - Net		(257)	(1,328)	285	(193)
		(4,348)	(4,787)	(7,627)	(8,098)
INCOME (LOSS) BEFORE INCOME TAX		1,009	(1,599)	4,044	1,390
INCOME TAX EXPENSE (BENEFIT)		220	(528)	1,030	263
NET INCOME (LOSS)		P789	(P1,071)	P3,014	P1,127
Attributable to:					
Equity holders of the Parent Company		P877	(P916)	P3,138	P1,168
Non-controlling interests		(88)	(155)	(124)	(41)
		P789	(P1,071)	P3,014	P1,127
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	12	P0.07	(P0.12)	P0.09	P0.07

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

Certified by:

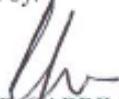

EFREN T. GABRILLO
 Vice President - Controllers

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

	April to June		January to June	
	2014	2013	2014	2013
NET INCOME (LOSS)	P789	(P1,071)	P3,014	P1,127
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
Exchange differences on translation of foreign operations	(458)	1,079	130	593
Unrealized fair value loss on available-for-sale financial assets	(4)	(15)	(14)	(23)
Income tax benefit	1	2	2	2
OTHER COMPREHENSIVE INCOME (LOSS)	(461)	1,066	118	572
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	P328	(P5)	P3,132	P1,699
Attributable to:				
Equity holders of the Parent Company	P789	(P705)	P3,440	P1,022
Non-controlling interests	(461)	700	(308)	677
	P328	(P5)	P3,132	P1,699

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)

	Note	Equity Attributable to Equity Holders of the Parent Company								Non-controlling Interests	Total Equity
		Capital Stock	Additional Paid-in Capital	Undated Subordinated Capital Securities	Retained Earnings		Reserve for Retirement Plan	Other Reserves	Total		
					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		-	-	-	-	3,138	-	302	3,440	(308)	3,132
Cash dividends and distributions	12	-	-	-	-	(2,524)	-	-	(2,524)	-	(2,524)
Net adjustments to non-controlling interests and others		-	-	-	-	-	-	-	-	(679)	(679)
As of June 30, 2014 (Unaudited)		P9,475	P9,764	P30,546	P25,171	P18,101	P2,242	(P419)	P94,880	P16,937	P111,817
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		-	-	-	-	1,168	-	(146)	1,022	677	1,699
Cash dividends	12	-	-	-	-	(945)	-	-	(945)	-	(945)
Issuance		-	-	30,546	-	-	-	-	30,546	-	30,546
Net adjustments to non-controlling interests and others		-	-	-	-	-	-	-	-	(544)	(544)
As of June 30, 2013 (Unaudited)		P9,475	P9,764	P30,546	P25,171	P15,559	P10	(P347)	P90,178	P17,481	P107,659

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
CASH FLOWS
(UNAUDITED)
(Amounts in Million Pesos)

For the Six Months Ended
June 30

	<i>Note</i>	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P4,044	P1,390
Adjustments for:			
Share in net gains of associates		(45)	(29)
Retirement expense		51	249
Interest expense and other financing charges		2,605	3,431
Depreciation and amortization		2,966	2,757
Interest income		(453)	(682)
Unrealized foreign exchange (gains) losses - net		(1,012)	2,321
Other gains		(364)	(92)
Operating income before working capital changes		7,792	9,345
Changes in noncash assets, certain current liabilities and others		(20,645)	6,358
Interest paid		(4,002)	(3,246)
Income taxes paid		(158)	(410)
Interest received		1,187	712
Net cash flows provided by (used in) operating activities		(15,826)	12,759
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	5	(7,662)	(31,288)
Proceeds from sale of property, plant and equipment		42	-
Decrease (increase) in:			
Other receivables		3,056	(2,179)
Other noncurrent assets		7,137	(211)
Reductions from (additions to):			
Financial assets at fair value through profit or loss		454	(318)
Available-for-sale financial assets		388	51
Net cash flows provided by (used in) investing activities		3,415	(33,945)

Forward

	For the Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of loans	P177,911	P180,346
Payments of:		
Loans	(169,619)	(171,718)
Cash dividends and distributions	(3,431)	(1,479)
Proceeds from issuance of undated subordinated capital securities	-	30,546
Increase in other noncurrent liabilities	370	161
Net cash flows provided by financing activities	5,231	37,856
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(140)	273
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,320)	16,943
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	50,398	26,965
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	P43,078	P43,908

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

Certified by:


EFREN E. 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)

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.

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.

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 adoption of the amendments is 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 adoption of the amendments is required to be applied for annual periods beginning 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 adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
 - Aggregation of operating segments (*Amendment to PFRS 8, Operating Segment*). The amendment clarifies that operating segments may be combined or aggregated if they are consistent with the core principle of the standard, if the segments have similar economic characteristics and if they are similar in other qualitative respects. If they are combined, the entity must disclose the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The adoption of the amendments is required to be applied for annual periods beginning July 1, 2014.
 - Reconciliation of the total of the reportable segment assets to the entity's total assets (*Amendment to PFRS 8*). The amendment clarifies that the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. The adoption of the amendments 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 adoption of the amendments 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 adoption of the amendments is required to be retrospectively 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 adoption of the amendments is required to be retrospectively 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 adoption of the amendments is 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 adoption of the amendments is required to be retrospectively applied for annual periods beginning July 1, 2014.
- PFRS 9, Financial Instruments (2009, 2010 and 2013). PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. PFRS 9 (2013) introduces the following amendments: (a) a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the consolidated financial statements; (b) changes to address the so-called ‘own credit’ issue that were already included in PFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and (c) removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for the companies to make the transition to the new requirements. The IASB is currently discussing some limited amendments to the classification and measurement requirements and the expected credit loss impairment model to be included. Once the deliberations are complete, the IASB expects to publish a final version of the standard that will include all of the phases: (a) Classification and Measurement, (b) Impairment, and (c) Hedge Accounting. That version of the standard will include a new mandatory effective date. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets but will potentially have no impact on the classification and measurement of financial liabilities.

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

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

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

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
June 30, 2014						
Revenue:						
External sales	P256,791	P -	P -	P1,439	P -	P258,230
Inter-segment sales	127,019	64	268	-	(127,351)	-
Segment results	5,610	49	121	20	66	5,866
Net income	2,942	62	13	27	(30)	3,014

(Forward)

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
Assets and liabilities:						
Segment assets	399,032	1,859	5,168	994	(44,326)	362,727
Segment liabilities	270,115	690	4,111	210	(29,048)	246,078
Other segment information:						
Property, plant and equipment	144,640	-	-	237	5,220	150,097
Depreciation and amortization	2,909	-	1	23	33	2,966
Interest expense and other financing charges	2,605	-	94	-	(94)	2,605
Interest income	536	8	-	3	(94)	453
Income tax expense	1,021	6	7	2	(6)	1,030

	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
June 30, 2013						
Revenue:						
External sales	P217,461	P -	P -	P1,320	P -	P218,781
Inter-segment sales	94,804	60	225	-	(95,089)	-
Segment results	3,488	48	105	30	124	3,795
Net income	1,010	75	15	41	(14)	1,127
Assets and liabilities:						
Segment assets	352,809	1,950	5,009	1,083	(32,413)	328,438
Segment liabilities	223,048	440	3,990	265	(9,505)	218,238
Other segment information:						
Property, plant and equipment	129,091	-	-	252	5,071	134,414
Depreciation and amortization	2,706	-	1	21	29	2,757
Interest expense and other financing charges	3,432	-	96	-	(96)	3,432
Interest income	758	11	2	7	(96)	682
Income tax expense	235	6	8	7	7	263

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

	Reseller	Lube	Gasul	Industrial	Others	Total
June 30, 2014						
Revenue	P131,445	P1,885	P12,928	P81,280	P29,253	P256,791
Property, plant and equipment	20,848	165	435	181	123,011	144,640
Capital expenditures	2,917	-	77	110	97,140	100,244
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
June 30, 2013						
Revenue	P120,146	P1,677	P12,096	P63,705	P19,837	P217,461
Property, plant and equipment	19,396	209	434	137	108,915	129,091
Capital expenditures	2,571	-	67	46	85,952	88,636

Geographical Segments

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

	June 30, 2014	December 31, 2013
Local	P285,427	P284,845
International	77,300	72,451
	P362,727	P357,296

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

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
June 30, 2014						
Revenue:						
Local	P149,256	P35	P268	P1,439	(P2,304)	P148,694
Export/international	234,554	29	-	-	(125,047)	109,536
December 31, 2013						
Revenue:						
Local	P265,989	P21	P560	P2,551	(P4,676)	P264,445
Export/international	416,745	53	-	-	(217,605)	199,193
June 30, 2013						
Revenue:						
Local	P126,252	P34	P225	P1,320	(P257)	P127,574
Export/international	186,013	26	-	-	(94,832)	91,207

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
Cost:							
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	305	163	322	42	117	6,713	7,662
Disposals/reclassifications	37	(34)	159	(6)	2,188	1,249	3,593
Currency translation adjustment	(1)	84	53	(3)	60	15	208
June 30, 2014	28,203	49,860	16,203	4,190	14,667	100,245	213,368
Accumulated depreciation and amortization:							
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	641	923	642	441	48	-	2,695
Disposals/reclassifications	(6)	(34)	(156)	(16)	422	-	210
Currency translation adjustment	13	345	30	(283)	3	-	108
June 30, 2014	16,451	31,519	10,189	3,039	2,073	-	63,271
Net book value:							
December 31, 2013	P12,059	P19,362	P5,996	P1,260	P10,702	P92,268	P141,647
June 30, 2014	P11,752	P18,341	P6,014	P1,151	P12,594	P100,245	P150,097

Capital Commitments

As at June 30, 2014 and December 31, 2013, the Group has outstanding commitments to acquire property, plant and equipment amounting to P4,673 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 June 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 NPC Basco DP & Other NPC	672	34		29	1	
May 22, 2013	May 28, 2013	(May - Dec. 2013 with 6 months extension) NPC Pulang Lupa DP, Lot 9 Romblon and Lot 27 Zamboanga	8,036	3,350		347	96	
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 Lubuangan DP & Others 2014 with 6 months extension)						118
Nov. 12, 2013	Jan. 2, 2014	NPC Lubuangan DP & Others 2014 with 6 months extension)		64,723			2,449	
Jan. 22, 2014	Feb. 21, 2014	NPC Lubuangan DP & Others 2014 with 6 months extension)		15,497			543	

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) Naga Plant Complex Corporation	275			12		
Mar. 26, 2014	Apr. 23, 2014	(April-December 2014 with 6 months extension) Southern Philippines Power Corporation	480			19		
Mar. 26, 2014	Apr. 23, 2014	(April-December with 6 months extension) Western Mindanao Power Corporation	90					
Mar. 26, 2014	Apr. 23, 2014	(April-December with 6 months extension)	28			1.2		

* 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 June 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>	2014 2013	P273 777	P - -	P7,129 16,393	P - -	On demand/ long-term; Interest bearing	Unsecured; No impairment
Intermediate Parent	<i>a, d</i>	2014 2013	2 4	91 167	11 5	11 94	On demand; Non-interest bearing	Unsecured; No Impairment
Under common control	<i>a, b, c</i>	2014 2013	10,891 16,053	3,176 3,444	3,277 3,180	861 924	On demand; Non-interest bearing	Unsecured; No Impairment
Associate	<i>a</i>	2014 2013	75 86	- -	31 21	- -	On demand; Non-interest bearing	Unsecured; No Impairment
Joint venture	<i>b</i>	2014 2013	- -	39 137	8 8	28 28	On demand; Non-interest bearing	Unsecured; No impairment
		2014	P11,241	P3,306	P10,456	P900		
		2013	P16,920	P3,748	P19,607	P1,046		

- Sales relate to the Parent Company's supply agreements with associate and various SMC subsidiaries. Under these agreements, the Parent Company supplies the bunker, diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries
- Purchases relate to purchase of goods and services such as construction, information technology and shipping from a joint venture and various subsidiaries of SMC.
- 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.
- The Parent Company also pays SMC for its share in common expenses such as utilities and administrative fees.
- The Parent Company has interest bearing advances to PCERP, included as part of "Other receivable" and "Other noncurrent assets" accounts in the consolidated statements of financial position, for some investment opportunities.
- Amounts owed by related parties consist of trade, nontrade receivables, advances and security deposits.
- Amounts owed to related parties consist of trade and nontrade payables and other noncurrent liabilities.

8. Loans and Borrowings

Short-term Loans

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

Balance at January 1, 2014	P100,071
Loan availments	163,690
Loan repayments	(158,295)
Reclassification/Translation adjustment	159
Balance at June 30, 2014	P105,625

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). 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 quarter and their respective amounts were made on the following dates: May 27 (US\$70 million); June 4 (US\$118 million); and June 20 (US\$70 million). 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.

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

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

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

Foreign Currency Risk

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

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:

	June 30, 2014		December 31, 2013	
	US dollar	Phil. peso Equivalent	US dollar	Phil. peso Equivalent
Assets				
Cash and cash equivalents	538	23,472	439	19,479
Trade and other receivables	908	39,640	899	39,926
Other assets	43	1,889	61	2,691
	1,489	65,001	1,399	62,096
Liabilities				
Short-term loans	490	21,391	440	19,546
Liabilities for crude oil and petroleum product importation	1,389	60,612	1,347	59,804
Long-term debts (including current maturities)	956	41,720	759	33,708
Other liabilities	533	23,216	507	22,483
	3,368	146,939	3,053	135,541
Net foreign currency - denominated monetary liabilities	(1,879)	(81,938)	(1,654)	(73,445)

The Group incurred net foreign currency gains (losses) amounting to P769 and (P2,838) in June 30, 2014 and June 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:

	Peso to US Dollar
June 30, 2013	43.20
December 31, 2013	44.40
June 30, 2014	43.65

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;
- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and

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 June 30, 2014 and December 31, 2013:

	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
June 30, 2014				
Cash and cash equivalents	(P276)	(455)	P276	455
Trade and other receivables	(53)	(892)	53	892
Other assets	(30)	(34)	30	34
	(359)	(1,381)	359	1,381
Short-term loans	50	475	(50)	(475)
Liabilities for crude oil and petroleum product importation	489	1,242	(489)	(1,242)
Long-term debts (including current maturities)	879	692	(879)	(692)
Other liabilities	468	393	(468)	(393)
	1,886	2,802	(1,886)	(2,802)
	P1,527	P1,421	(P1,527)	(P1,421)

December 31, 2013	P1 Decrease in the US dollar Exchange Rate		P1 Increase in the US dollar Exchange Rate	
	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
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 P418 and P337 in the period ending June 30, 2014 and 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 June 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:

June 30, 2014	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P84	P4,548	P36	P20,036	P678	P2,707	P28,089
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%	
Floating Rate							
Malaysian ringgit denominated (expressed in PhP)	-	170	1,128	1,128	971	-	3,397
Interest rate		1.5%+COF	1.5%+COF	1.5%+COF	1.5%+COF		
US\$ denominated (expressed in PhP)	2,993	10,651	15,253	6,242	3,218	-	38,357
Interest rate*		1, 3, 6 mos. Libor + margin					
	P3,077	P15,369	P16,417	P27,406	P4,867	P2,707	P69,843

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

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

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

Credit Risk

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by 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:

	June 30, 2014	December 31, 2013
Cash in bank and cash equivalents (net of cash on hand)	P39,360	P46,356
Financial assets at FVPL	127	
Derivative assets	212	666
Available-for-sale financial assets	527	915
Trade and other receivables - net	68,427	67,667
Due from related parties	2,037	10,877
Long-term receivables - net	45	45
Noncurrent deposits	92	92
	P110,827	P126,618

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 P5,509 and P4,827 as of June 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 June 30, 2014 and December 31, 2013:

June 30, 2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P43,078	P43,078	P43,078	P -	P -	P -
Trade and other receivables - net	68,427	68,427	68,427	-	-	-
Due from related parties	2,037	2,037	-	2,037	-	-
Derivative assets	212	212	212	-	-	-
Financial assets at FVPL	127	127	127	-	-	-
AFS financial assets	527	541	413	75	53	-
Long-term receivables - net	45	56	10	6	15	25
Noncurrent deposits	92	93	-	2	11	80
Financial Liabilities						
Short-term loans	P105,625	P106,418	P106,418	-	-	-
Liabilities for crude oil and petroleum product importation	38,241	38,241	38,241	-	-	-
Trade and other payables (excluding taxes payable and retirement benefits liability)	28,956	28,956	28,956	-	-	-
Derivative liabilities	316	316	316	-	-	-
Long-term debts (including current portion)	68,674	81,078	6,589	18,700	52,603	3,186
Cash bonds	368	372	-	355	12	5
Cylinder deposits	540	540	-	-	-	540
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
Financial Assets						
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
Financial Liabilities						
Short-term loans	100,071	100,532	100,532	-	-	-
Liabilities for crude oil and petroleum product importation	38,707	38,707	38,707	-	-	-
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:

	June 30, 2014	December 31, 2013
Total assets	P362,900	P357,458
Total liabilities	251,083	245,570
Total equity	111,817	111,888
Debt to equity ratio	2.2:1	2.2:1

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

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 P339 and P783 as of June 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 P113,679 and P129,079 as of June 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 P527 and P915 as of June 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 P316 and P152 as of June 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 P242,442 and P237,770 as of June 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 June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets (FA):				
Cash and cash equivalents	P43,078	P43,078	P50,398	P50,398
Trade and other receivables	68,427	68,427	67,667	67,667
Due from related parties	2,037	2,037	10,877	10,877
Long-term receivables - net	45	45	45	45
Noncurrent deposits	92	92	92	92
Loans and receivables	113,679	113,679	129,079	129,079
AFS financial assets	527	527	915	915
Financial assets at FVPL	127	127	117	117
Derivative assets	212	212	666	666
FA at FVPL	339	339	783	783
Total financial assets	P114,545	P114,545	P130,777	P130,777
Financial liabilities (FL):				
Short-term loans	P105,625	P105,625	P100,071	P100,071
Liabilities for crude oil and petroleum product importation	38,241	38,241	38,707	38,707
Trade and other payables (excluding taxes payable and retirement benefits liability)	28,956	28,956	28,266	28,266
Long-term debt (including current portion)	68,674	68,674	66,187	66,187
Cash bonds	368	368	363	363
Cylinder deposits	540	540	210	210
Other noncurrent liabilities	38	38	3,966	3,966
FL at amortized cost	242,442	242,442	237,770	237,770
Derivative liabilities	316	316	152	152
Total financial liabilities	P242,758	P242,758	P237,922	P237,922

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

Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties, Long-term Receivables and Noncurrent Deposits. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, 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 June 30, 2014 and December 31, 2013, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,705 and US\$1,445, respectively, and with various maturities in 2014. As of June 30, 2014 and December 31, 2013, the net fair value of these currency forwards amounted to (P232) 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 8.25 million barrels and 2.0 million barrels for June 30, 2014 and December 31, 2013, respectively. The estimated net receipts for these transactions amounted to P683 and P6 for June 30, 2014 and December 31, 2013, respectively.

Commodity Options

As of June 30, 2014, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 1.61 million barrels.

The call and put options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. The estimated amount net payout of these call and put options as of June 30, 2014 amounted to P95.

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 June 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 June 30, 2014 figure is minimal.

For the periods ended June 30, 2014 and December 31, 2013, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P251) 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:

June 30, 2014	Level 1	Level 2	Total
Financial Assets			
FVPL	P339	P -	P339
Derivative assets	-	212	212
AFS financial assets	435	92	527
Financial Liabilities			
Derivative liabilities	-	(316)	(316)
<hr/>			
December 31, 2013	Level 1	Level 2	Total
Financial Assets			
FVPL	P117	P -	P117
Derivative assets	-	666	666
AFS financial assets	757	158	915
Financial Liabilities			
Derivative liabilities	-	(152)	(152)

The Group has no financial instruments valued based on Level 3 as of June 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 USCS.
- 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.

12. Basic and Diluted Earnings Per Share

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

	2014	2013
Net income attributable to equity holders of the Parent Company	P3,138	P1,168
Dividends on preferred shares for the period	476	476
Distributions paid to the holders of USCS	1,824	-
Net income attributable to common shareholders of the Parent Company (a)	P838	P692
Weighted average number of common shares outstanding (in millions) (b)	9,375	9,375
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	P0.09	P0.07

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

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.

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 October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities

of the Parent Company for such purchases are shown as part of “Liabilities for Crude Oil and Petroleum Product Importation” account in the consolidated statements of financial position as at June 30, 2014 and December 31, 2013. The contract is extended until December 31, 2014.

On September 30, 2009, NVRC entered into a 30-year lease with 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 June 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 P37,320 and P29,176 as at June 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 June 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 June 30, 2013, 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 June 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 June 30, 2014.

15. Events After the Reporting Period

- a. On July 2, 2014, the balance of US\$42 million was drawn by the Parent Company from the US\$300 million term loan facility (Note 8).
- b. On July 25, 2014, PFISB availed of five-year MYR 50 million loan which bears an interest of COF+1.5% (Note 8).
- 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 August 6, 2014, the BOD approved cash dividends of P2.382 per share for the preferred shareholders as of August 22, 2014 which will be paid on September 5, 2014.
- e. On August 6, 2014, the BOD approved the issuance of preferred shares with features to be determined by the Executive Committee.

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 June 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)

The first quarter of the year was characterized by a relatively low but still remarkable GDP growth of 5.7%. Contributors to growth are household consumption (5.8% growth), investments in fixed capital (11.2% growth), and exports (12.6% growth), supported by high OFW remittances and strong government and private spending. By industrial origin, the services and industry sectors exhibited strong growth of 6.8% and 5.5% respectively. Meanwhile the agriculture, hunting and forestry sector had a dull performance with 0.9% growth due to the damages brought about by typhoon Yolanda and earthquake in the Visayas region late last year.

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

91-day T-Bills rose to 1.274% in the 2Q 2014 from 1.065% in 1Q 2014. For YTD June, 91-day T-Bills averaged 1.21% from 0.3% average in 1H 2013. T-bill rates edged higher due to higher inflation in 2014, foreign funds outflow and expectations of increased rates in the US as the US Fed winds down its quantitative easing (QE3) program.

Peso-Dollar Exchange Rate

In 2Q 2014, the Peso averaged P44.1/\$, about 5.5% depreciation from the P41.8/\$ average in the same period last year, but a slight improvement from last quarter's P44.9/\$ average. This brings 1H 2014 average at P44.5/\$, 8% weaker than 1H 2013's average of P41.2/\$. The Peso weakened compared to last year as external financial volatilities and investor risk aversion intensified due to US Fed's tapering of its QE program, and the sell-off in stock markets of some emerging economies.

Inflation

The prices of commodities and services remained elevated in 2Q averaging 4.3% from 4.1% in the 1Q 2014, bringing 1H 2014 inflation at 4.2%, a big increase from 2.9% average in 1H 2013. 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). Higher electricity rates and fuel prices also contributed to the inflation increase. The 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)

Dubai inched up in the 2Q 2014, averaging \$106.13/bbl (with peak at \$111.2/bbl), compared to the \$104.4/bbl average in the 1Q 2014 and \$100.1/bbl average in the same period last year (2Q 2013). This brings 1H 2014 Dubai at \$105.3/bbl vs. \$104.4/bbl in 1H 2013. Supply issues with aggravating tensions in Iraq and in other oil-producing nations pushed oil prices higher especially in the 2Q 2014.

Industry Oil Demand

Preliminary data from DOE shows that as of March 2014, total oil industry demand (excluding lubes and greases) grew by 6.3% to 29.5 million barrels (327.6 MBD) from 27.7 million barrels (308.3 MBD) in same period in 2013. Favorable business environment with robust economic growth, subdued inflation, growing OFW remittances, and rising vehicle sales supported growth in oil demand.

Tight industry competition. Competition remains stiff with the new players implementing different marketing strategies and aggressively expanding. As of YTD March 2014, the new players (based on preliminary data from DOE excluding direct imports) have collectively cornered around 26.6% of the total oil market. Collectively, the new players are leading the LPG market segment with 63.2% 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.

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. 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. LPG cylinder seal suppliers must obtain a license and certification of quality, health and safety from the DOE before they are allowed to operate. LPG cylinder requalifiers, repairers and scrapping centers, will also have to obtain a license from the Department of Trade and Industry. 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

RECEIVABLES

As of June 30, 2014

(Amounts in Million Pesos)

Breakdown:

Accounts Receivable – Trade	P33,257
Accounts Receivable – Non-Trade	35,170
Total Accounts Receivable	P68,427

AGING OF TRADE ACCOUNTS RECEIVABLES

Receivables	1 – 30 days	P28,777
	31 – 60 days	121
	61 – 90 days	941
	Over 90 days	4,238
Total		34,077
Allowance for doubtful accounts		820
Accounts Receivable – Trade		P33,257

Interim Financial Report as of June 30, 2014

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

Financial Performance

2014 vs 2013

Petron Corporation posted a consolidated net income of **₱ 3.01 billion** in the first half of 2014, significantly better than the **₱ 1.13 billion** earnings reported during same period in 2013 with the improvement in margin and reduction in non-operating charges. Healthier margin resulted mainly from higher sales volume and better sales mix. During the current period, reference crude and MOPS prices in the region are more stable compared last year as the benchmark Dubai crude traded at a monthly average of US\$104.02 to US\$108.03 per barrel, narrower than the US\$100.32 to US\$111.10 range in 2013. The Philippine peso depreciated versus the US Dollar from an average of **₱41.26** in first half 2013 to **₱44.49** this year while the Malaysian Ringgit also weakened from an average of **RM3.08** last year to **RM3.27** per US\$ in 2014.

(In Million Pesos)	2014	2013	Variance- Fav (Unfav)	
			Amt	%
Sales	258,230	218,781	39,449	18
Cost of Goods Sold	246,559	209,293	(37,266)	(18)
Gross Margin	11,671	9,488	2,183	23
Selling and Administrative Expenses	5,805	5,185	(620)	(12)
Non-operating Charges	1,822	2,913	1,091	37
Net Income	3,014	1,127	1,887	high
EBITDA	9,397	7,357	2,040	28
Sales Volume (MB)	43,138	39,792	3,346	8
Earnings per Share (Peso)	0.09	0.07	0.02	29
Return on Sales (%)	1.2	0.5	0.7	high

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose from **₱ 7.36 billion** to **₱ 9.40 billion** this year with stronger operating income.

Similarly, earnings per share stood higher at **₱ 0.09** while return on sales increased to **1.2%** from **0.5%**.

Highlights of the first semester performance are the following:

- ◆ Combined Sales volume of both Philippine and Malaysian operations grew by 8% to **43.1 million barrels (MMB)** from 39.8 MMB last year. Philippine volumes increased by 10% to 25.1 MMB as the company continued to reap rewards from its on-going service station expansion program. Industrial sales also increased with growth coming from the fishing and power-generation sectors. In Malaysia, volumes increased by 6% to 18.0 MMB on stronger network, industrial and LPG sales. The company's rebranding and upgrading programs are in full swing with 380 out of 550 stations already converted to the Petron brand. Industrial sector improved with the solicitation of key aviation accounts.
- ◆ Net sales revenue went up by 18% from **₱ 218.78 billion** a year ago to **₱ 258.23 billion** in the current year. Aside from the growth in sales volume, average selling price per liter increased by **₱ 3.07** with the depreciation of the Philippine Peso and the Malaysian Ringgit against the US Dollar.

- ◆ Correspondingly, **Cost of Goods Sold** surged by 18% to **₱ 246.56 billion** from prior year's ₱ 209.29 billion at the back of higher sales volume and the escalated average cost per liter (2014: ₱35.95 vs. 2013: ₱33.08. Increase in cost per liter was also driven by the weakening of the Philippine Peso and Malaysian Ringgit partly toned down by the less expensive cost per barrel of crude that went into cost of goods sold.
- ◆ Inclusive of **Refinery fuel, Refinery Operating Expenses in the Philippines** amounted to **₱ 7.58 billion**, up by 15% from ₱ 6.61 billion over the same period in 2013. Higher purchased utilities due to higher crude run contributed mainly to the increase in expenses.
- ◆ **Selling and Administrative Expenses (OPEX)** summed up to **₱ 5.81 billion** and exceeded last year's expenditures of ₱ 5.19 billion. In the Philippines, the increase was attributed largely to the rent and depreciation of additional service stations and higher insurance cost. In Malaysia, additional expenses were incurred on LPG cylinder rebranding into Gasul brand, upgrading of existing service stations, and in the launching of the "PMILES" loyalty card program. On a peso per liter basis, actual OPEX was slightly higher at ₱0.85 versus ₱0.82 in 2013.
- ◆ **Non-operating charges** of **₱ 1.82 billion** were considerably lower than last year's ₱ 2.91 billion level traced mainly to higher capitalized interest on loans used to finance the Refinery Master Plan-2 project, lower forex losses on dollar denominated transactions, and higher unrealized commodity hedging gain. These were partly offset by the absence of one-time gain on sale of MegaPlaza last year coupled by the drop in interest income with the partial collection of advances from Petron Corporation Employee Retirement Plan.

2013 vs 2012

Petron Corporation posted a consolidated net income of **₱ 1.13 billion** for the first half of 2013, better than the restated income of ₱ 183 million over the same period last year. The increase in profit mainly came from higher margin and lower non-operating charges. Although Dubai crude prices substantially declined from an average of US\$108/barrel in the first quarter to US\$101/barrel in the second quarter causing local fuel prices to fall sharply against higher-cost inventory, the Company still managed to earn a more favorable gross margin relative to previous year's due to the realized hedging gain on various product cracks. Meanwhile, Petron Malaysia (PM) contributed **₱ 177 million** to this year's profit.

		As Restated	Variance- Fav (Unfav)	
(In Million Pesos)	2013	2012	Amt	%
Sales	218,781	193,299	25,482	13
Cost of Goods Sold	209,293	184,544	(24,749)	(13)
Gross Margin	9,488	8,755	733	8
Selling and Administrative Expenses	5,185	4,929	(256)	(5)
Non-operating Charges	2,913	3,523	610	17
Net Income	1,127	183	944	high
EBITDA	7,357	6,426	931	14
Sales Volume (MB)	39,792	32,533	7,259	22
Earnings per Share (Peso)	0.07	-	0.07	high
Return on Sales (%)	0.5	-	0.5	high

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

Correspondingly, **earnings before interest, taxes, depreciation and amortization (EBITDA)** grew by 14% from the **₱ 6.43 billion** level a year earlier to **₱ 7.36 billion** this year.

Earnings per share stood at **₱ 0.07** while **return on sales** improved to **0.5%**.

Highlights of the first half performance are the following:

- ◆ **Sales volume** increased by 22% to **39.8 million barrels** from previous year's 32.5 million barrels with the full consolidation of PM. On the other hand, the Philippine operations showed a 4% decline compared with last year mainly due to lower supply and exports sales as a result of lower crude run, tempered by the growth in the domestic market.
- ◆ **Net sales** revenue grew by 13% to **₱ 218.78 billion** from **₱ 193.30 billion** the year before also on account of the full consolidated of PM. PM contributed **₱ 87.7 billion** from the total sales. Sales from Petron Philippines (PP) contracted by 10% brought about by the combined effect of lower selling price and volume.
- ◆ **Cost of Goods Sold (CGS)** surged to **₱ 209.29 billion** exceeding last year's **₱ 184.54 billion** due primarily to the full consolidation of PM. PP's CGS, on the other hand, dipped by 9% or **₱ 12.61 billion** prompted by the decline in cost per barrel of crude that formed part of CGS (2013: US\$110.36 vs 2012: US\$115.58) and the **₱ 1.64** appreciation of peso vis-à-vis the US dollar.
- ◆ **Refinery Operating Expenses** in PP amounted to **₱ 3.16 billion**, nearly matched the **₱ 3.20 billion** of the previous year. Lower maintenance and repairs, and purchased power with the start-up of the Phase 1 power plant in April accounted for the slight decline in expenses.
- ◆ **Selling and Administrative Expenses (OPEX)** aggregated to **₱ 5.19 billion**, 5% above the **₱ 4.93 billion** spending last year essentially due to the full consolidation of PM. PP's OPEX dropped by 8% or **₱ 306 million** attributed to lower advertising and promotion expenses, and the absence of one-off expenses related to last year's acquisition of PM. Meanwhile, **consolidated OPEX per liter** of volume sold was lower at **₱ 0.82** from last year's **₱ 0.95**.
- ◆ **Non-operating charges** fell to **₱ 2.91 billion** from **₱ 3.52 billion** a year ago. The significant improvement was due mainly to the 32% or **₱ 0.86 billion** decrease in net non-operating charges of PP as financing costs were partly toned down by the recorded gains from commodity hedging transactions (against loss last year) and the sale of Petron MegaPlaza.

Financial Position

2014 vs 2013

Petron's consolidated assets as of **June 30, 2014** further increased by **2%** (**₱ 5.44 billion**) to **₱ 362.90 billion**, from end-December 2013 level of **₱ 357.46 billion** essentially on account of the increases in Inventories and Property, plant and equipment trimmed down by the reduction in Cash and cash equivalents and other non-current assets.

Cash and cash equivalents dropped by 15% (**₱ 7.32 billion**) to **₱ 43.08 billion** from **₱ 50.40 billion** in December 2013. The reduction in cash was essentially due to the company's additional working capital requirements and on-going capital projects.

Financial assets at fair value through profit or loss plummeted by 57% (**₱ 444 million**) to **₱ 339 million**, prompted by lower marked-to-market gain on outstanding foreign currency forwards.

Inventories ballooned by 19% from **₱ 51.72 billion** to **₱ 61.63 billion** brought about by higher volume of crude and finished product for both Philippines and Malaysia.

Other current assets of ₱ 16.57 billion registered a 28% increase from the ₱ 12.93 billion level in December 2013 attributed to input VAT and various prepayments such as taxes, insurance and rent from Philippine operations.

Available-for-sale financial assets (current and non-current) dropped by 42% (₱ 388 million) to **₱ 527 million** traced to the maturity of investments in government securities of insurance subsidiaries now temporarily placed in short-term investments.

Property, plant and equipment - net grew by 6% from ₱ 141.65 billion to **₱ 150.10 billion** on account of the on-going construction of RMP-2, newly built service stations of Petron Philippines and the service station rebranding of Petron Malaysia.

The **₱ 45 million** share in net income of Manila North Harbour Port, Inc. resulted in the increase of **Investment in associates to ₱ 930 million**.

Deferred tax assets rose by 7% (₱ 11 million) to **₱ 173 million** largely due to the increase in temporary differences of Petron Malaysia and Petron Marketing Corporation.

Other noncurrent assets-net decreased by 45% or **₱ 9.29 billion** to **₱ 11.56 billion** with the partial collection of advances from Petron Corporation Employees Retirement Plan.

Derivative liabilities of ₱ 316 million more than doubled the ₱ 152 million level as at end of 2013 brought about by higher marked-to-market loss on outstanding foreign currency forwards.

Income tax payable escalated by 55% from ₱ 194 million to **₱ 301 million**, an offshoot of the improvement in income of Petron Malaysia.

Deferred tax liabilities moved up by ₱ 400 million (9%) to **₱ 5.00 billion** essentially due to the timing differences of Petron Philippines' unrealized foreign exchange gains or losses.

Other noncurrent liabilities significantly dropped to **₱ 967 million** from ₱ 4.54 billion in December 2013 with the reclassification of maturing retention payable to current liabilities.

Other reserves of (₱ 419 million) as of end-June 2014 showed a 42% improvement from (₱ 721 million) as of end December 2013 largely due to the translation gain of equity in foreign subsidiaries.

Non-controlling interests ended lower by ₱ 987 million to **₱ 16.94 billion** due to dividend declaration of Petron Malaysia Refining & Marketing Bhd. and Petron Global Ltd.

2013 vs 2012

Petron's **consolidated assets** as of June 30, 2013 grew by 17% or **₱ 48.20 billion** to **₱ 328.54 billion**, from end-December 2012 restated level of ₱ 280.33 billion primarily due to the increases in property, plant and equipment and cash and cash equivalents.

Cash and cash equivalents stood 63% (₱ 16.94 billion) higher at **₱ 43.91 billion** mainly from proceeds of loans and the internally generated funds from operations.

Financial assets at fair value through profit or loss of **₱ 508 million** more than doubled the ₱ 186 million as at end of 2012 brought about by higher marked-to-market value of outstanding foreign currency forwards.

Inventories dropped by 5% (₱ 2.31 billion) to **₱ 47.27 billion** due to lower volume and price of crude on top of the decline in price of finished product importations.

Other current assets increased by 26% to **₱ 13.55 billion** traceable to PP's input VAT on foreign purchases.

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-June 2013.

Property, plant and equipment-net surged by 29% from ₱ 104.11 billion to **₱ 134.41 billion** attributed to the major capital projects at the Refinery such as the RMP-2 and Refinery Solid Fuel-Fired Power Plant (RSFFPP), the newly built service stations of PP and the rebranding of service stations of PM.

Available-for-sale financial assets (current and non-current) dropped by 6% or ₱ 51 million to **₱ 860 million** on account of the matured government securities of Petrogen.

Deferred tax assets went up by 24% to **₱ 97 million** owing to the temporary differences of PM.

Short-term loans and liabilities for crude oil and petroleum product importations rose by 5% to **₱ 131.13 billion** brought about by higher borrowing level of both PP and PM.

Trade and other Payables grew by 8% to **₱ 15.99 billion** traced to various capital projects at the Refinery.

Derivative Liabilities increased by 46% from ₱ 245 million to **₱ 358 million** principally due to higher marked-to-market loss on outstanding embedded derivatives.

Income tax payable moved up by 71% to **₱ 89 million** essentially from the taxes payable of PM.

Long-term debt inclusive of current portion escalated by 18% (₱ 10.16 billion) to **₱ 66.17 billion** owing to the final drawdown of US\$210 million loan in January 2013 out of the US\$485 million loan contracted last year.

Deferred tax liabilities dropped by 16% to **₱ 2.64 billion** mainly due to the timing differences of PP's unrealized foreign exchange gains or losses.

Total equity recorded a ₱ 30.76 billion growth from ₱ 76.90 billion to **₱ 107.66 billion** chiefly due to the ₱ 30.55 billion undated subordinated capital securities issued during the first quarter.

Cash Flows

Cash flows from operating activities was a net outflow of ₱ 15.83 billion as the company's requirements for additional working capital and interest payments were significantly higher compared to cash generated from operations.

Cash flows from investing activities generated additional cash of ₱ 3.42 billion. Collections from advances to the retirement plan and government receivables are more than enough to finance the company's on-going capital projects.

Cash inflows from financing activities amounted ₱ 5.23 billion. Net loan availments exceeded loan repayments and payments of cash dividends and distributions to holders of capital securities.

In Million Pesos	June 30, 2014	June 30, 2013	Change
Operating inflows (outflows)	(15,826)	12,759	(28,585)
Investing outflows	3,415	(33,945)	37,360
Financing inflows	5,231	37,856	(32,625)

Discussion of the company's key performance indicators:

Ratio	June 30, 2014	December 31, 2013
Current Ratio	1.1	1.0
Debt to Equity Ratio	2.5	2.4
Return on Equity (%)	5.4	5.4
Interest Rate Coverage Ratio	3.6	3.2
Assets to Equity Ratio	3.2	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, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

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

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

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

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

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

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

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

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

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: August 7, 2014

Principal Financial/Accounting Officer/Controller

Signature and Title: 

EFREN P. GABRILLO
Vice President - Controllers

Date: August 7, 2014