

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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Company Name

P	I	L	I	P	I	N	A	S		S	H	E	L	L		P	E	T	R	O	L	E	U	M				
C	O	R	P	O	R	A	T	I	O	N																		

BUREAU OF INTERNAL REVENUE
APR 29 2015
EXCISE & REGULATORY DIVISION

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

S	H	E	L	L		H	O	U	S	E	,	1	5	6		V	A	L	E	R	O		S	T	R	E	E	T	,
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Form Type

A	F	S	
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Department requiring the report

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Secondary License Type, if applicable

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COMPANY INFORMATION

Company's Email Address

SHAIFUL B. ZAINUDDIN

Company's Telephone Number(s)

(632) 816 6501

Mobile Number

--

No. of Stockholders

--

Annual Meeting (Month/Day)

--

Fiscal Year (Month/Day)

--

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

SHAIFUL B. ZAINUDDIN

Email Address

--

Telephone Number(s)

--

Mobile Number

--

Contact Person's Address

--

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

Pilipinas Shell Petroleum Corporation

Financial Statements with Supplementary Schedules
for the Securities and Exchange Commission
31 December 2014

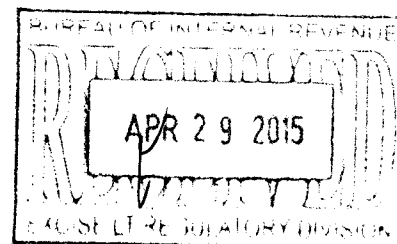


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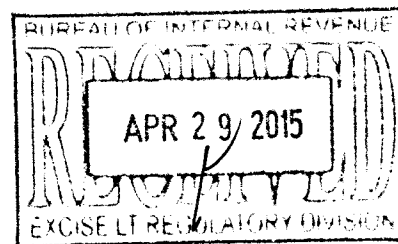
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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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

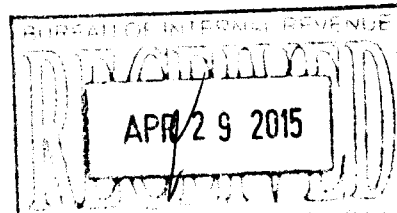
The Board of Directors reviews and approves the financial statements and submit the same to the stockholders.

Isla Lipana & Co. (a PwC member firm), the independent auditors, appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Edgar O. Chua
Chairman of the Board and President

Shaiful B. Zainuddin
Vice President for Finance and Treasurer

Signed this **24th day of March 2015**



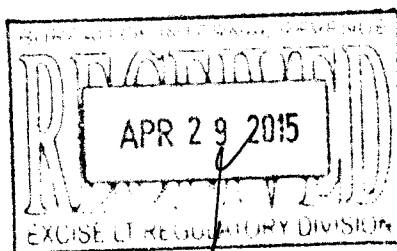
SUBSCRIBED AND SWORN to before me this 24th day of March 2015 at Makati City, affiant/s exhibiting to me the following Community Tax Certificate and/or Competent Evidence of Identification:

Name	Community Tax Certificate		Competent Evidence of Identification	
	Number	Date/Place Issued	Type/Number	Date/Place Issued
EDGAR CHUA	23668410	Jan. 23, 2015 Bacoor, Cavite	Passport No. EC1610571	July 11, 2014 DFA Manila
SHAIFUL ZAINUDDIN			Passport No. A24602876	05 July 2011 High Commission of Malaysia, Singapore

IN WITNESS WHEREOF, I have hereunto affixed my signature and Notarial Seal.

NOTARY PUBLIC
CHARLES EDWARD MACK CHENG
NOTARY PUBLIC FOR & IN MAKATI CITY
156 VALERO ST., SALCEDO VILLAGE, MAKATI CITY
ROLL NO. 55255
IBP NO. 011511-MAKATI CHAPTER-LIFETIME
UNTIL DEC. 31, 2015/APPOINTMENT NO. M-144
PTT. NO. PKT4753943 MAKATI CITY 08 JANUARY 2015
MCLE COMPLIANCE IV-0022121/07 OCTOBER 2013

Doc. No. 185 ;
Page No. 38 ;
Book No. V ;
Series of 2015.



Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Pilipinas Shell Petroleum Corporation
Shell House, 156 Valero Street
Salcedo Village, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of Pilipinas Shell Petroleum Corporation, which comprise the balance sheets as at 31 December 2014 and 2013, and the statements of income, statements of total comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

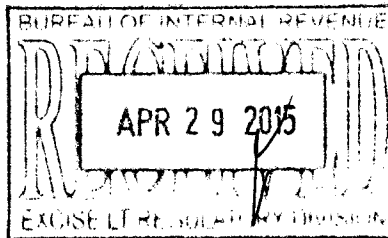
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

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

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
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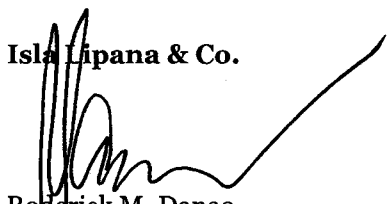
Isla Lipana & Co.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Pilipinas Shell Petroleum Corporation
Page 2

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.


Roderick M. Danao
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on 6 January 2015 at Makati City

SEC A.N. (individual) as general auditors 1202-A, Category A; effective until 31 March 2015

SEC A.N. (firm) as general auditors 0009-FR-3; effective until 15 August 2015

TIN 152-015-078

BIR A.N. 08-000745-42-2015, issued on 20 January 2015; effective until 19 January 2018

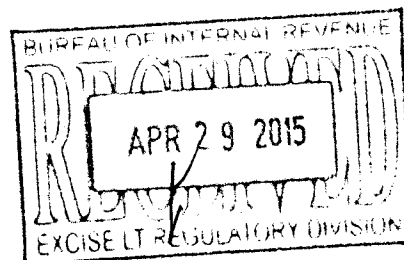
BOA/PRC Reg. No. 0142, effective until 31 December 2016

Makati City
24 March 2015



Isla Lipana & Co.

Statements Required by Rule 68, Section 3B(v),
Securities Regulation Code (SRC),
As Amended on October 20, 2011



To the Board of Directors and Shareholders of
Pilipinas Shell Petroleum Corporation
Shell House, 156 Valero Street
Salcedo Village, Makati City

We have audited the financial statements of Pilipinas Shell Petroleum Corporation as at and for the year ended 31 December 2014, on which we have rendered the attached report dated 24 March 2015. In connection with our audit, we have obtained a certification from the Company's corporate secretary on the number of shareholders and their corresponding shareholdings, performed reasonableness tests of the share capital balance as at 31 December 2014 in relation to the certification issued by the corporate secretary, and conducted certain tests necessary to validate their entries and balances.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of work performed by us, the Company has three hundred thirty three (333) shareholders owning one hundred (100) or more shares as at 31 December 2014.

Isla Lipana & Co.

Roderick M. Danao
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on 6 January 2015 at Makati City

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SEC A.N. (firm) as general auditors 0009-FR-3; effective until 15 August 2015

TIN 152-015-078

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BOA/PRC Reg. No. 0142, effective until 31 December 2016

Makati City
24 March 2015

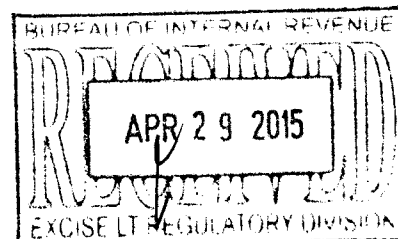
Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
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Isla Lipana & Co.

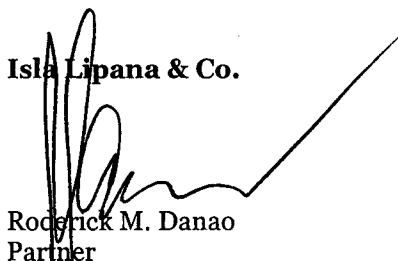
Statements Required by Rule 68,
Securities Regulation Code (SRC),
As Amended on October 20, 2011

To the Board of Directors and Shareholders of
Pilipinas Shell Petroleum Corporation
Shell House, 156 Valero Street
Salcedo Village, Makati City



We have audited the financial statements of Pilipinas Shell Petroleum Corporation as at and for the year ended 31 December 2014, on which we have rendered the attached report dated 24 March 2015. The supplementary information shown in the Schedule of Effective Standards and Interpretations as at 31 December 2014 and Annex 68-C Reconciliation of Retained Earnings Available for Dividend Declaration, as additional components required by Part I Section 4 of Rule 68 of the Securities Regulation Code (SRC), and Schedules A, B, C, D, E, F, G and H, as required by Part II, Section 6 of Rule 68 of the SRC, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information has been prepared in accordance with Rule 68 of the SRC.

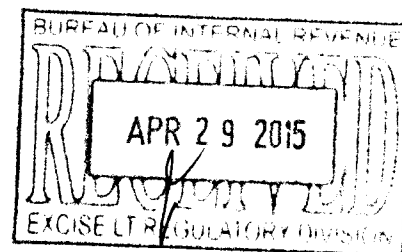
Isla Lipana & Co.


Roderick M. Danao
Partner
CPA Cert. No. 88453

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Makati City
24 March 2015

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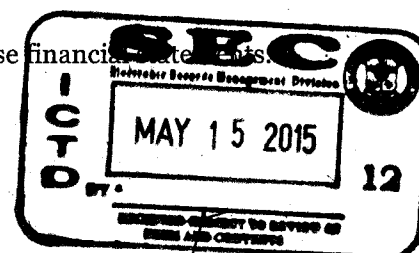


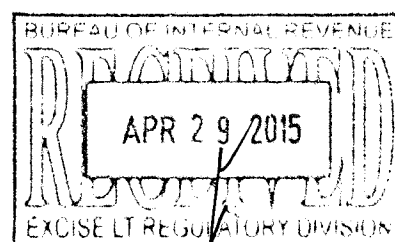
Pilipinas Shell Petroleum Corporation

Balance Sheets
31 December 2014 and 2013
(All amounts in thousand Philippine Peso)

	Notes	2014	2013
Current assets			
Cash	5	4,721,647	6,161,150
Receivables, net	6	14,004,594	15,664,026
Inventories, net	7	16,336,347	28,514,218
Prepayments and other current assets	8	12,160,188	9,531,866
Total current assets		47,222,776	59,871,260
Non-current assets			
Long-term receivables, rentals and investments, net	9	1,389,755	1,409,419
Property and equipment, net	10	18,630,729	14,777,222
Deferred income tax assets, net	11	5,293,928	1,488,694
Other assets, net	12	965,518	1,186,782
Total non-current assets		26,279,930	18,862,117
Total assets		73,502,706	78,733,377
Current liabilities			
Accounts payable and accrued expenses	13	19,892,922	14,291,762
Dividends payable	24	9,668	10,090
Short-term borrowings	14	21,550,000	35,537,000
Current portion of loans payable	15	11,000,000	-
Total current liabilities		52,452,590	49,838,852
Non-current liabilities			
Loans payable, net of current portion	15	12,000,000	11,000,000
Provisions and other liabilities	16	5,219,474	5,333,830
Total non-current liabilities		17,219,474	16,333,830
Total liabilities		69,672,064	66,172,682
Equity			
Share capital	17	758,885	758,885
Share premium		7,437,829	7,437,829
Treasury shares	17	(507,106)	(507,106)
Retained earnings (deficit)	18	(4,184,802)	4,524,373
Other reserves	12, 25	325,836	346,714
Total equity		3,830,642	12,560,695
Total liabilities and equity		73,502,706	78,733,377

The notes on pages 1 to 59 are integral part of these financial statements.



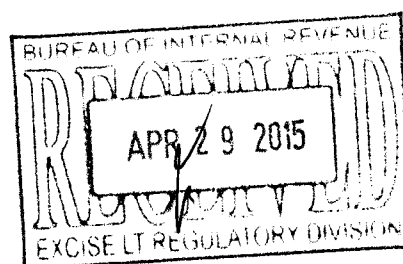


Pilipinas Shell Petroleum Corporation

Statements of Income
For each of the three years in the period ended 31 December 2014
(All amounts in thousand Philippine Peso, except per share data)

	Notes	2014	2013	2012
Gross sales		238,238,474	211,333,279	202,079,909
Sales discounts and rebates		(14,153,649)	(12,484,415)	(13,231,199)
Net sales		224,084,825	198,848,864	188,848,710
Cost of sales	20, 24	(225,394,173)	(187,218,810)	(178,111,171)
Gross profit (loss)		(1,309,348)	11,630,054	10,737,539
Selling expenses	21	(7,736,002)	(6,624,184)	(6,440,052)
General and administrative expenses	21	(2,049,212)	(2,376,083)	(2,202,157)
Other operating income, net	22	355,964	220,677	161,040
Income (Loss) from operations		(10,738,598)	2,850,464	2,256,370
Finance income	23	239,492	31,793	753,728
Finance expense	23	(1,868,787)	(2,442,862)	(1,501,635)
Gain on sale of subsidiary	9	-	-	4,133,654
Other non-operating income (expense), net	24, 26	(17,650)	(1,170,396)	445,158
Income (Loss) before income tax		(12,385,543)	(731,001)	6,087,275
Benefit from (Provision for) income tax	11	3,896,963	(181,107)	(1,287,883)
Profit (Loss) for the year		(8,488,580)	(912,108)	4,799,392
Earnings (Loss) per share - basic and diluted	19	(12.28)	(1.32)	6.94

The notes on pages 1 to 59 are integral part of these financial statements.



Pilipinas Shell Petroleum Corporation

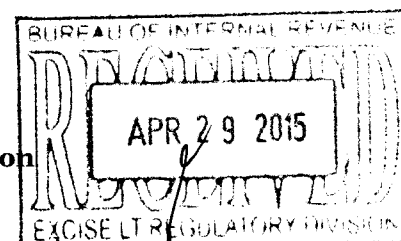
Statements of Total Comprehensive Income
 For each of the three years in the period ended 31 December 2014
 (All amounts in thousand Philippine Peso)

	Notes	2014	2013	2012
Profit (Loss) for the year		(8,488,580)	(912,108)	4,799,392
Other comprehensive income (loss):				
Items that may not be subsequently reclassified to profit or loss				
Remeasurement gain (loss) on retirement benefits, net of tax	25	(220,595)	191,101	60,711
Items that may be subsequently reclassified to profit or loss				
Increase (Decrease) in fair value of available-for-sale financial assets	12	(13,488)	(70,268)	101,245
Total comprehensive income (loss) for the year		(8,722,663)	(791,275)	4,961,348

The notes on pages 1 to 59 are integral part of these financial statements.

Pilipinas Shell Petroleum Corporation

Statements of Changes in Equity
For each of the three years in the period ended 31 December 2014
(All amounts in thousand Philippine Peso)

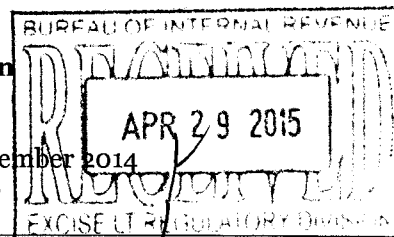


Notes	Share capital	Share premium	Treasury stock	Retained earnings	Other reserves		Total equity
					Share-based reserve	Fair value reserve	
	17		17	18	25	12	
Balances at 1 January 2012	758,885	7,437,829	(507,106)	5,725,069	-	233,192	13,647,869
Comprehensive income							
Profit for the year	-	-	-	4,799,392	-	-	4,799,392
Other comprehensive income							
Increase in fair value reserve of available-for-sale financial assets	-	-	-	-	-	101,245	101,245
Remeasurement gain on retirement benefits (net of tax amounting to P26,019)	-	-	-	60,711	-	-	60,711
Total comprehensive income	-	-	-	4,860,103	-	101,245	4,961,348
Transactions with owners							
Cash dividends	-	-	-	(4,863,980)	-	-	(4,863,980)
Share-based compensation	-	-	-	-	108,016	-	108,016
Total transactions with owners	-	-	-	(4,863,980)	108,016	-	(4,755,964)
Balances at 31 December 2012	758,885	7,437,829	(507,106)	5,721,192	108,016	334,437	13,853,253
Comprehensive income							
Loss for the year	-	-	-	(912,108)	-	-	(912,108)
Other comprehensive income (loss)							
Decrease in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(70,268)	(70,268)
Remeasurement gain on retirement benefits (net of tax amounting to P81,901)	-	-	-	191,101	-	-	191,101
Total comprehensive income	-	-	-	(721,007)	-	(70,268)	(791,275)
Transactions with owners							
Cash dividends	-	-	-	(475,812)	-	-	(475,812)
Share-based compensation	-	-	-	-	(25,471)	-	(25,471)
Total transactions with owners	-	-	-	(475,812)	(25,471)	-	(501,283)
Balances at 31 December 2013	758,885	7,437,829	(507,106)	4,524,373	82,545	264,169	12,560,695
Comprehensive income							
Loss for the year	-	-	-	(8,488,580)	-	-	(8,488,580)
Other comprehensive loss							
Decrease in fair value reserve of available-for-sale financial assets	-	-	-	-	-	(13,488)	(13,488)
Remeasurement loss on retirement benefits (net of tax amounting to P94,541)	-	-	-	(220,595)	-	-	(220,595)
Total comprehensive income	-	-	-	(8,709,175)	-	(13,488)	(8,722,663)
Transactions with owners							
Share-based compensation	-	-	-	-	(7,390)	-	(7,390)
Total transactions with owners	-	-	-	-	(7,390)	-	(7,390)
Balances at 31 December 2014	758,885	7,437,829	(507,106)	(4,184,802)	75,155	250,681	3,830,642

The notes on pages 1 to 59 are integral part of these financial statements.

Pilipinas Shell Petroleum Corporation

Statements of Cash Flows
For each of the three years in the period ended 31 December 2014
(All amounts in thousand Philippine Peso)



	Notes	2014	2013	2012
Cash flows from operating activities				
Income (Loss) before income tax		(12,385,543)	(731,001)	6,087,275
Adjustments:				
Provision for inventory losses	7	2,825,684	29,749	69,650
Depreciation and amortization	10, 12	2,299,297	1,883,106	1,774,900
Interest and finance charges	23	1,250,786	1,175,902	1,382,343
Accretion expense	23	221,690	113,647	107,745
Unrealized foreign exchange loss (gain), net	23	179,292	76,454	(71,225)
Pension expense	25	167,440	175,454	203,219
Provision for (reversal of) impairment of receivables	21	114,022	(459)	(45,593)
Share-based compensation	25	73,832	79,046	108,016
Unrealized mark-to-market loss (gain), net	23	59,525	11,343	(35,203)
Provision for legal case, net	16	56,214	56,214	14,619
Loss on disposal of property and equipment	22	16,582	78,782	122,513
Write-off of accounts receivable	6, 21	12,338	29,565	36,649
Gain on sale of subsidiary	9	-	-	(4,133,654)
Cost of claim settlement	26	-	1,283,395	-
Interest income	23	(19,688)	(31,793)	(20,229)
Operating income (loss) before working capital changes		(5,128,529)	4,229,404	5,601,025
Decrease (increase) in current assets other than cash		7,688,394	(4,146,673)	(7,558,066)
Increase (decrease) in liabilities other than provisions, dividends payable, short-term borrowings and loans payable		5,213,330	(4,748,362)	(545,578)
Cash generated from (used in) operations		7,773,195	(4,665,631)	(2,502,619)
Taxes paid		-	-	(96,535)
Pension contributions paid	25	(412,907)	(442,263)	(542,921)
Net cash from (used in) operating activities		7,360,288	(5,107,894)	(3,142,075)
Cash flows from investing activities				
Decrease (increase) in other assets		431,341	(297,565)	1,270
Interest received		19,688	(371)	7,625
Decrease (increase) in long-term receivables, rentals and investments, net		19,664	32,550	(44,017)
Proceeds from sale of property and equipment		4,336	175,058	17,333
Additions/Charges from provisions for ARO, remediation and demolition costs	16	(95,478)	31,929	(79,528)
Additions to program and software, property and equipment	10, 12	(6,025,114)	(1,860,020)	(2,767,876)
Proceeds from sale of subsidiary	9	-	-	4,055,374
Settlement of claims by local company	26	-	(1,283,395)	-
Net cash from (used in) investing activities		(5,645,563)	(3,201,814)	1,190,181
Cash flows from financing activities				
Net proceeds from (settlements of) short-term borrowings	14	(13,987,000)	9,220,800	2,241,200
Proceeds from long-term loans payable	15	12,000,000	-	11,000,000
Cash dividends paid	18	(422)	(474,865)	(7,028,949)
Interest and finance charges paid		(1,170,326)	(1,189,679)	(1,365,172)
Net cash from (used in) financing activities		(3,157,748)	7,556,256	4,847,079
Net increase (decrease) in cash for the year		(1,443,023)	(753,452)	2,895,185
Cash at the beginning of the year		6,161,150	6,924,552	4,026,011
Effect of exchange rate changes on cash		3,520	(9,950)	3,356
Cash at the end of the year	5	4,721,647	6,161,150	6,924,552

The notes on pages 1 to 59 are integral part of these financial statements.

Pilipinas Shell Petroleum Corporation

Notes to Financial Statements

As at 31 December 2014 and 2013 and for each of the three years in the period ended 31 December 2014

(All amounts in table are shown in thousand Philippine Peso except per share data and unless otherwise stated)

Note 1 - General information

Pilipinas Shell Petroleum Corporation (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on 9 January 1959 primarily to engage in the refining and marketing of petroleum products. On 5 December 2008, the SEC approved the extension of the corporate term of the Company for another fifty (50) years from 9 January 2009 to 8 January 2059.

The Company is 67% owned by Shell Overseas Investments BV (SOIBV), a corporation registered under the laws of Netherlands and 33% owned by Filipino and other foreign shareholders. The ultimate parent of the Company is Royal Dutch Shell plc. (RDS) (incorporated in the United Kingdom).

The Company is considered a public company under Securities Regulation Code (SRC) Rule 68, as amended on 20 October 2011, which among others, is any corporation with assets of at least P50 million and it has two hundred (200) or more shareholders, each of which holds at least one hundred (100) shares of a class of its equity securities. As at 31 December 2014, the Company has 359 shareholders (2013 - 359 and 2012 - 362), 333 of whom hold at least 100 shares of the Company's common shares (2013 - 337 and 2012 - 337).

The Company has its principal office at Shell House, 156 Valero Street, Salcedo Village, Makati City and has an oil refinery in Tabangao, Batangas and various oil depots and installations all over the Philippines. The Company has 765 regular employees as at 31 December 2014 (2013 - 741 and 2012 - 747).

The financial statements have been authorized for issue by the Company's Board of Directors on 24 March 2015 upon endorsement by the Board Audit Committee on 16 March 2015.

Note 2 - Summary of significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, included in other assets.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2014:

- *Amendment to PAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities.* This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.
- *Amendment to PAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets.* This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in PAS 36 by the issue of PFRS 13. The amendment did not have a significant effect on the Company's financial statements.
- *Amendment to PAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting.* This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under PAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant effect on the Company's financial statements.
- *Philippine Interpretation IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of PAS 37, 'Provisions'.* The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Company is not currently subjected to significant levies, the impact on the financial statements is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material and not relevant to the Company.

(b) New standards, amendments and interpretations not yet adopted by the Company

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these standards are expected to have a significant effect on the financial statements of the Company, except the following set out below:

- *PFRS 9, 'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of PFRS 9 was issued in July 2014. It replaces the guidance in PAS 39 that relates to the classification and measurement of financial instruments. PFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in PAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. PFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under PAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company's initial assessment of PFRS 9's potential impact on its financial statements provides that it would change the classification of its financial assets but it will not affect the measurement of its current types of financial assets. The Company will continue its assessment and finalize the same upon effective date of the new standard.
- *PFRS 15, 'Revenue from contracts with customers'*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces PAS 18 'Revenue' and PAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company's initial assessment of PFRS 15's potential impact on its financial statements provides that its current revenue recognition will not be significantly affected. The Company will continue its assessment and finalize the same upon effective date of the new standard.

There are no other standards, amendments or interpretations that are effective after 1 January 2014 that are expected to have a material impact on the Company.

2.2 Cash

Cash consists of deposits held at call with banks. It is carried in the balance sheet at face amount or nominal amount.

2.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes a financial instrument in the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the instrument.

2.3.1 Classification

The Company classifies its financial assets and liabilities according to the categories described below. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The Company's financial assets are limited to loans and receivables and available-for-sale financial assets.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and where management has no intention of trading. These are included in current assets, except for maturities greater than 12 months after the balance sheet date, in which case, these are classified as non-current assets.

Included in this category are the Company's cash (Note 5), trade receivables (Note 6), other current receivables (except for claims from government and miscellaneous receivables) (Note 6), loans to an entity under common shareholdings, market investment loans and other long-term receivables (Note 9).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months from the balance sheet date. Available-for-sale financial assets mainly represent unquoted equity securities and proprietary club shares and are classified under other assets in the balance sheet (Note 12).

(b) Financial liabilities

The Company classifies its financial liabilities at initial recognition in the following categories: at fair value through profit or loss and other financial liabilities. The classification depends on the purpose for which the financial liabilities were acquired.

(i) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

A financial liability is classified as financial liability at fair value through profit or loss upon initial recognition if: such designation significantly reduces measurement or recognition inconsistency that would otherwise arise; the financial liability forms group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and PAS 39 permits the entire combined contract (asset or liability) to be designated as fair value through profit or loss.

The Company's foreign exchange forward contracts are considered not significant in value and are included under accounts payable and accrued expenses account in the balance sheet. Such arrangements qualified as a derivative and are accounted for at fair value through profit or loss.

(ii) Other financial liabilities

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder. The Company's financial liabilities under this category include accounts payable and accrued expenses (except amounts due to government or its agencies) (Note 13), payable to related parties (Note 24), dividends payable (Note 24), short-term borrowings (Note 14), loans payable (Note 15) and cash security deposits (Note 16).

2.3.2 Recognition and measurement

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets are recognized on trade date (the date on which the Company commits to purchase or sell the asset) at invoice amount. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs.

Financial liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

(b) Subsequent measurement

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Available-for-sale financial assets are subsequently carried at fair value. Unrealized gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognized in other comprehensive income.

Derivatives are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Gains or losses arising from changes in the fair value are presented in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other non-operating income when the Company's right to receive payments is established.

2.3.3 Determination of fair value

The fair values of quoted investments classified as available-for-sale financial assets are based on current market prices. If the market for available-for-sale financial assets is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions with reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs (Note 2.4).

2.3.4 Impairment of financial assets

(a) Assets carried at amortized cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indicators that the customers, group of customers, individual debtor and/or group of individual debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Company first assesses whether there is objective evidence of impairment exists individually for receivables that are individually significant, and collectively for receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the 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 that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statements of income. Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances, including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against selling, general and administrative expenses in the statement of comprehensive income.

Reversals of previously recorded impairment provision are based on the result of management's update assessment, considering the available facts and changes in circumstances including but not limited to results of recent discussions and arrangements entered into with customers as to the recoverability of receivables at the end of the reporting period. Subsequent recoveries of amounts previously written-off are credited against selling, general and administrative expenses in the statement of income.

(b) Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or (more than 20% of the original cost of the available-for-sale financial asset) or prolonged (more than one year after reporting date) decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income.

2.3.5 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled or expires. 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 modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

2.3.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. As at 31 December 2014 and 2013, there are no financial assets and financial liabilities that were offset.

2.4 Fair value measurement

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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily of equity investments classified as available-for-sale. The Company's investment in available-for-sale financial assets (Note 12) which is measured at fair value at 31 December 2014 and 2013 is classified under level 1. The Company does not have non-financial assets and liabilities under Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company's derivatives in relation to forward contracts are classified under level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Company does not have financial instruments and non-financial assets/liabilities classified under level 3.

2.5 Receivables

Trade receivables arising from regular sales with average credit term of 30 to 60 days and other current receivables are initially recorded at fair value and subsequently measured at amortized cost, less provision for impairment. Fair value approximates invoice amount due to short-term nature of the financial assets. Other long-term receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments is considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the provision is recognized in the statement of income under selling expenses, and general and administrative expenses. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of the amount previously written-off are credited against selling expenses in the statement of income.

2.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in first-out (FIFO) method for crude oil and finished products, and moving average method for materials and supplies. Crude oil and finished products inventory is net of estimated volume of unpumpable stocks. Cost of products sold includes invoice cost, duties, excise taxes, refinery production overhead, freight and pipeline costs and excludes borrowing costs. Net realizable value, in case of refined and finished products, is the estimated selling price in the ordinary course of business, less applicable variable selling expenses (less further conversion costs, in case of crude inventory). Provision for inventory losses is provided, when necessary, based on management's review of inventory movement and condition of inventory item. Inventory losses, if any, is charged as part of cost of sales in the Company's statement of income.

Crude oil and finished products are derecognized when sold, and materials and supplies are derecognized when consumed. The carrying amount of these inventories is charged to cost of sales in statement of income, in the period in which the related revenue is recognized.

2.7 Prepayments and other current assets

Prepaid expenses are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepaid expenses expire and are recognized as expense either with the passage of time or through use or consumption.

Advance tax payments related to inventories are recognized initially as prepayment and charged to operations when products are sold.

Input VAT claims is stated at face value less provision for impairment, if any. Provision for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claim. The Company, on a continuing basis, reviews the status of the claim designed to identify those that may require provision for impairment losses. A provision for impairment of unrecoverable input VAT is established when there is objective evidence that the Company will not be able to recover the claims. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. As at 31 December 2014 and 2013, the Company has no provision for impairment of input VAT (See Note 4.2.b).

2.8 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT), to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The Company reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.

2.9 Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and amortization. Historical cost includes its acquisition cost or purchase price and expenditure that is directly attributable to the acquisition of the items necessary to bring the asset to its working condition and location for its intended use. Costs of assets under construction are accumulated in the accounts until these projects are completed upon which they are charged to appropriate property accounts.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Asset retirement obligation (ARO) represents the net present value of obligations associated with the retirement of property and equipment that resulted from acquisition, construction or development and the normal operation of property and equipment. ARO is recognized as part of the cost of the related property and equipment in the period when a legal or constructive obligation is established provided that best estimate can be made. ARO is derecognized when the related asset has been retired or disposed of.

Depreciation on property and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful lives (in years), as follows:

Leasehold improvements	5 to 40
Furniture and fixtures	5 to 20
Machinery and equipment	3 to 30
Transportation	5 to 25

Leasehold improvements are amortized over the actual or anticipated term of the lease or estimated useful lives of the improvements, whichever is shorter. Assets under construction are not subject to depreciation until it is put into operation.

ARO is amortized on a straight-line basis over the estimated life of the related assets or lease term (in case of leased assets) whichever is shorter.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property and equipment are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated depreciation of assets sold are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income.

2.10 Intangible assets - computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of five years from the time the software has been ready for its intended use in operations.

Costs associated with maintaining computer software programs are recognized as an expense as incurred in the statement of income.

Intangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal and related gains and losses on disposals are determined by comparing proceeds with the carrying amount of assets. The cost and related accumulated amortization of intangible assets disposed are removed from the accounts and any resulting gain or loss is credited or charged to other operating income (expense) in the statement of income.

The Company's intangible asset is classified as part of the "other assets" account in the balance sheet (Note 12).

2.11 Investments in subsidiary, associates and joint arrangements

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statements of income.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions—that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Business combination involving entities under common control are accounted for using the predecessor's cost method, which is similar to pooling of interest.

(b) Associates

Investments in associates are accounted for at cost following the provisions of PAS 28 - Investment in Associates on exemptions in using equity method. These investments are stated at cost less impairment in value, if any, in the Company's financial statements (Note 9). Under this method, the Company recognizes income from the investments only to the extent that the Company receives distribution from accumulated profits of the subsidiaries arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investments and are recognized as a reduction of the cost of the investment. The Company recognizes dividend income from investments in the statement of income when its right to receive dividends has been established.

(c) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor.

Joint ventures are accounted for at cost following the provisions of PAS 28 on exemptions in using equity method. At consolidation level, joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint ventures), the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Joint operations are accounted for by recognizing the Company's own or its share of assets, liabilities, revenue and expenses of the arrangement.

2.12 Impairment of non-financial assets

Property and equipment and other non-current assets (investments in other entities and intangibles) that have definite useful life are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's fair value less cost of disposal and value in use. Value in use requires entities to make estimates of future cash flows to be derived from the particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in other operating income (expense) in the statement of income.

2.13 Accounts payable and accrued expenses

Accounts payable and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2.14 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the maturity value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized and charged to operations in the year in which they are incurred.

2.15 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as part of other operating expense in the statement of income.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed and derecognized from the balance sheet.

2.16 Contingencies

Contingent assets and liabilities are not recognized in the financial statements. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent asset are disclosed when an inflow of economic benefits is probable.

2.17 Share capital

Common shares are classified as equity. Share premium is recognized for the excess proceeds of subscriptions over the par value of the shares issued.

Where the Company purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

2.18 Dividends distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

2.19 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has no dilutive potential common share.

2.20 Foreign currency transactions and translations

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

2.21 Revenue and expense recognition

(a) Revenue

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow into the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sale of oil products

Sales comprise the fair value of the consideration received or receivable from the sale of oil and gas products in the ordinary course of the Company's operations. Sales is shown net of value-added tax. Discounts and rebates are recognized and measured based on approved contracts and agreements with customers. The Company does not grant reward points to customers.

Sales of oil and gas products are recognized when the significant risks and rewards of ownership of the goods are transferred to the buyer, which generally coincides with the actual delivery of goods.

Delivery does not occur unless the products have been shipped out of the Company's premises or received by the customer depending on shipping arrangements.

(ii) Other operating income

Other operating income, such as retailer and franchise fees, is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(iii) Finance income

Finance income, such as foreign exchange gains and interest income, is recognized as incurred and presented at gross after operating profit. Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

(iv) Dividend income

Dividend income is recognized when the right to receive payment is established. The Company's dividend income is presented as part of other non-operating income in the statement of income.

(b) Costs and expenses

Costs and expenses are charged to operations as incurred.

2.22 Leases - Company is the lessee

Leases of retail stations, pipelines and office premises where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

When the Company enters into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset or is dependent on the use of a specific asset or assets, the Company assesses whether the arrangement is, or contains, a lease. The Company does not have such arrangements.

2.23 Employee benefits

(a) Pension obligation

The Company maintains a pension scheme, which is funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The Company maintains a defined benefit pension plan, which is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, dependent on certain factors such as age, years of credited service, and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

In cases when the fair value of the plan assets is in excess of the present value of the defined benefit obligation, the Company measures the resulting asset at the lower of such amount determined, and the asset ceiling calculated as the present value of available future refunds and reductions in the future contributions.

Restricted or non-transferable assets of the fund are excluded in the determination of fair value of plan assets.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited as 'remeasurements' to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the statements of income.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(c) Bonus plans

The Company recognizes a liability and an expense for performance-related bonuses, based on a formula that takes into consideration the Company and employee's performance. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Performance-share plans

RDS operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees. PSP for conditional shares are awarded to eligible employees based on their sustained performance and value. The extent to which shares are finally delivered at the end of a three-year performance period, or not, depends upon the performance of the Shell group.

The fair value of shares, determined using a Monte Carlo pricing model, is credited as 'other reserve' in equity and is charged to profit or loss over the vesting period. The fair value of share-based compensation for equity-settled plans granted to employees under the RDS schemes is recognized as an intra-group payable to parent company when charged-out. The charge-out is based on the entitled personnel that were employed by the Company at the time of awarding.

2.24 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities under common shareholdings, which includes entities that are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.25 Operating segments

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments (Note 30).

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the general manager who makes strategic decisions.

2.26 Events after balance sheet date

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

Note 3 - Financial risk management

3.1 Financial risk factors

The Company's operations expose it to a variety of financial risks: market risk (including foreign currency exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by its Regional Treasury - Shell Treasury Centre East (STCE) under policies approved by the Board of Directors. STCE identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and investing excess liquidity.

3.1.1 Market risk

Market risk is the possibility that changes in currency exchange rates, interest rates or the prices of crude oil and refined products will adversely affect the value of the Company's assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Company operates internationally and is exposed to foreign currency exchange risk arising from currency fluctuations, primarily with respect to the importations of crude and finished products denominated in US dollar. Foreign currency exchange risk may also arise from future commercial transactions and recognized assets and liabilities denominated in a currency other than the Company's functional currency.

Foreign exchange currency risks are not hedged and the Company does not enter into significant derivative contracts to manage foreign currency risks. Since foreign currency exposure is significantly concentrated on purchase of crude, the Company manages foreign currency risk by planning the timing of its importation settlements with related parties.

For the year ended 31 December 2014, if the Philippine Peso had weakened/strengthened by 5% (assessment threshold used by management) against the US dollar with all other variables held constant, equity and post-tax profit for the year would have been P375 million (2013 - P486 million; 2012 - P480 million) lower/higher, as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and payables as at balance sheet dates.

Management considers that there are no significant foreign exchange risks with respect to other currencies disclosed in Note 27.

(b) Cash flow and fair value interest rate risk

Cash flow and fair value interest risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant exposure to fair value interest rate risk as the Company has no significant interest-earning assets and interest-bearing liabilities subject to fixed interest rates.

The Company's interest-rate risk arises from its borrowings. Borrowings issued at variable rates expose the Company to cash flow interest-rate risk. At 31 December 2014, 2013 and 2012, the Company's short-term borrowings and loans payable carry floating rates based on a certain index plus applicable premium.

The Company does not enter into significant hedging activities or derivative contracts to cover risk associated with borrowings.

For the year ended 31 December 2014, if interest rates on Philippine peso-denominated borrowings had been 100 basis points (assessment threshold used by management) higher/lower with all other variables held constant, post-tax profit for the year would have been P312 million (2013 - P326 million; 2012 - P261 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. Management uses 100 basis points as threshold in assessing the potential impact of interest rate movements in its operations.

(c) Price risk

The Company is not significantly exposed to price risk on equity securities and proprietary club shares because investments held by the Company classified in the balance sheet as available-for-sale financial assets are not considered material in the financial statements.

3.1.2 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to trade and non-trade receivables.

The Company maintains cash and certain other financial instruments with various major financial institutions. To minimize this risk, the Company performs periodic evaluations of the relative credit standing of these financial institutions and where appropriate, places limits on the amount of credit exposure with any one institution. Additional information is presented in Note 5.

The Company has policies in place to ensure that sales of products are made to customers with acceptable creditworthiness. Counterparty credit risk is managed within a framework of individual credit limits with utilization being regularly reviewed. Credit checks are performed by a department independent of sales department, and are undertaken before contractual commitment. Where appropriate, cash on delivery terms are used to manage the specific credit risk.

There is no concentration of credit risks as at balance sheet dates as the Company deals with a large number of homogenous trade customers. Additional information is presented in Note 6.

3.1.3 Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company has access to sufficient external debt funding sources (banks credit lines) to

meet currently foreseeable borrowing requirements. The Treasury group centrally monitors bank borrowings, foreign exchange requirements and cash flow position.

Surplus cash is invested into a range of short-dated money market instruments, time deposits and money funds, which seek to ensure the security and liquidity of investments while optimizing yield.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow. Forecasted liquidity reserve for 2015 is as follows:

	2015
Opening cash balance for the year	4,721,647
Net cash from operating activities	7,024,784
Capital expenditures	(3,469,457)
Net cash used in other investing activities	35,475
Net cash used in financing activities	(3,663,488)
Ending cash balance for the year	4,648,961

The table below analyzes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances presented in the table approximate their carrying balances, as the impact of discounting is not significant.

	0-90 days	91-180 days	180 days - 1 year	Over 1 year	Total
At 31 December 2014					
Short-term borrowings	21,550,000	-	-	-	21,550,000
Future interest payment	18,636	278,202	-	-	296,838
Loans payable	-	-	11,000,000	12,000,000	23,000,000
Dividends payable	9,668	-	-	-	9,668
Accounts payable and accrued expenses	19,716,155	28,952	17,213	17,606	19,779,926
	41,294,459	307,154	11,017,213	12,017,606	64,636,432
At 31 December 2013					
Short-term borrowings	35,537,000	-	-	-	35,537,000
Future interest payment	136,852	79,604	160,977	53,070	430,503
Loans payable	-	-	-	11,000,000	11,000,000
Dividends payable	10,090	-	-	-	10,090
Accounts payable and accrued expenses	14,100,095	-	-	-	14,100,095
	49,784,037	79,604	160,977	11,053,070	61,077,688

Availability of funding to settle the Company's payables are ensured since the Company has unused credit lines of P40.9 billion as at 31 December 2014 (2013 - P35.7 billion and 2012 - P37.6 billion) and undrawn borrowing facilities at floating rate amounting to P40.9 billion (2013 - P24.8 billion and 2012 - P27.4 billion), which is expiring within one year.

The Company has a P10.2 billion credit facility with STCE, which does not have an expiration date.

3.2 Capital management

The Company manages its business to deliver strong cash flows to fund capital expenditures and growth based on cautious assumptions relating to crude oil prices. Strong cash position and operational cash flow provide the Company financial flexibility both to fund capital investment and return on equity. Total capital is calculated as 'equity' as shown in the balance sheet less other reserves plus net debt.

(a) Cash flow from operating activities

Cash flow from operating activities is considered a measure that reflects the Company's ability to generate funding from operations for its investing and financing activities and is representative of the realization of value for shareholders from the Company's operations. The statement of cash flows show the components of cash flow. Management uses this analysis to decide whether to obtain additional borrowings or additional capital infusion to manage its capital requirements.

(b) Gearing ratio

The gearing ratio is a measure of the Company's financial leverage reflecting the degree to which the operations of the Company are financed by debt. The amount of debt that the Company will commit depends on cash inflow from operations, divestment proceeds and cash outflow in the form of capital investment, dividend payments and share repurchases. The Company aims to maintain an efficient balance sheet to be able to finance investment and growth, after the funding of dividends.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings less cash and cash equivalents.

The Company does not have a fixed gearing target and management considers whether the present gearing level is commercially acceptable based on the ability of the Company to operate on a stand-alone basis and is set after appropriate advice has been taken from Tax, Treasury and Legal advisors.

The gearing ratios at 31 December are as follows:

	Notes	2014	2013
Total loans and borrowings	15, 16	44,550,000	46,537,000
Less: cash	5	4,721,647	6,161,150
Net debt		39,828,353	40,375,850
Total equity		3,504,806	12,213,981
Total capital		43,333,159	52,589,831
Gearing ratio		92%	77%

In 2013, the Company temporarily incurred higher borrowings mainly due to payment arising from a settlement of a claim by a local company (Note 26.d) and higher working capital requirements as a result of the unplanned refinery shutdown in November 2013. In 2014, oil prices dropped-off by half within a period of three months, the rapid decline resulted in inventory price losses (Note 7) that adversely impacted the gearing ratio despite absolute decline in borrowings.

The Company is not subject to externally imposed capital requirement.

3.3 Fair value estimation

The table below presents the carrying amounts of the Company's financial assets and financial liabilities, which approximates its fair values, as at December 31, 2014 and 2013.

	Notes	2014	2013
Financial assets			
Loans and receivables			
Cash	5	4,721,647	6,161,150
Receivables	6	10,229,547	12,361,129
Loans to TRI, a related party	9	379,678	494,678
Market investment loans	9	83,817	57,566
Long-term receivables	9	25,293	36,115
Available-for-sale financial assets	12	262,206	293,807
Total financial assets		15,702,188	19,404,445
Financial liabilities			
Other financial liabilities			
Accounts payable and accrued expenses	13	19,779,926	14,100,095
Dividends payable	24	9,668	10,090
Short-term borrowings	14	21,550,000	35,537,000
Loans payable	15	23,000,000	11,000,000
Total financial liabilities		64,339,594	60,647,185

Receivables in the table above exclude claims from the government and miscellaneous receivables while accounts payable and accrued expenses exclude amounts payable to the government and its related agencies.

The following methods and assumptions were used to estimate the value of each class of financial instrument for which it is practicable to estimate such value:

(a) Current financial assets and liabilities

Due to the short-term nature of the accounts, the fair value of cash and cash equivalents, receivables, deposits, accounts payable and short-term borrowings approximate the amount of consideration at the time of initial recognition.

(b) Financial assets and liabilities carried at amortized cost

Loans to TRI, staff car loans, market investment loans, other long-term receivables and payables, are carried at amortized cost.

(c) Financial assets carried at fair value

The Company's available-for-sale financial assets are marked-to-market if traded and quoted. Otherwise, these are held at cost less impairment, if any.

(d) Loans payable

The carrying values of long-term loans payable approximates their fair value because of regular interest repricing based on market conditions.

Note 4 - Critical accounting estimates, assumptions and judgments

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

(a) Provision for impairment of receivables

The provision for impairment of receivables is based on the Company's assessment of the collectability of payments from its debtors. This assessment requires judgment regarding the ability of the debtors to pay the amounts owed to the Company and the outcome of any disputes. The amounts and timing of recorded provision for impairment of receivables for any period would differ if the Company made different assumptions or utilized different estimates. Hence, management considers it impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding impairment of receivables. The Company's policy in estimating provision for impairment of receivables is presented in Note 2.5. The carrying amount of receivables and other information are disclosed in Note 6.

(b) Provision for inventory losses

The Company provides allowance for inventories whenever the net realizable value of inventories become lower than cost due to damage, physical deterioration, obsolescence, market driven price changes in price levels or other causes (i.e. pre-termination of contracts). Assessment of inventory losses on a regular basis is also performed based on historical information and past experience. The provision account is reviewed on a monthly basis to reflect the estimated net recoverable value in the financial statements. The Company suffered significant loss due to continuous decline in crude oil prices that started during the last quarter of the year (Note 7). Using thirty (30) days average stock reserve period, subsequent losses on major products after balance sheet date is estimated at P568.9 million. The carrying amount of inventories and other information are disclosed in Note 7.

(c) Provision for asset retirement obligation and environmental liabilities and remediation

Estimates of the ARO recognized are based on current legal and constructive requirements, technology and price levels. Since actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of the obligation is regularly reviewed and adjusted to take account of such changes.

The implicit rate (based on management's market assessment of the time value of money and risks specific to the obligation) used in discounting the cash flows is reviewed at least annually. The discount rate used to determine the present value of the obligation at 31 December 2014 and 2013 is 3% and the amount is recognized as accretion cost or income in the statement of income.

The Company has set total outstanding provision of P819 million (2013 - P823 million) to cover the required environmental remediation covering specific assets, based on external evaluation and study and total outstanding provision of P1.6 billion (2013 - P1.5 billion) for ARO.

Further, it is reasonably possible based on existing knowledge that outcome within the next financial year that are different from assumptions could require an adjustment to the carrying amount of the provision for ARO and environmental liabilities and remediation. However, management does not foresee any changes in terms of business operations and its circumstances that would cause a significant change in the initial estimates used. Additional information is presented in Note 16.

In relation to the First Philippine Industrial Corporation (FPIC) oil pipeline leak incident in 2010, there is no showing that the mere entry of the Company into agreements with FPIC for the use of the white oil pipeline created a legal or constructive obligation on the part of the Company.

(d) Determining useful lives and depreciation

Management determines the estimated useful lives and related depreciation charges for the Company's property and equipment (Note 10). Management will revise the depreciation charge where useful lives are different from the previous estimate, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Management does not foresee any changes in terms of business operations that would warrant reassessment of estimated useful lives.

(e) Pension benefit obligation and employee benefits

The determination of the Company's pension benefit obligation and employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 25, include among others, discount rates, and salary increase rates.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions follow:

	Impact on equity and income before tax	
	2014	2013
Discount rate		
Increase by 0.50%	(213,464)	(191,208)
Decrease by 0.50%	231,957	213,732
Salary increase rate		
Increase by 0.50%	223,113	193,904
Decrease by 0.50%	(207,434)	(175,244)

The above sensitivity is based on a change assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension asset (liability). The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to prior years.

While the Company's management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in actuarial assumptions may materially affect the pension obligation and employee benefits.

4.2 Critical judgments in applying the Company's accounting policies

(a) Impairment of long-lived assets

Long-lived assets (Notes 10 and 12) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. On a regular basis, management determines if there are triggering events or impairment indicators based on current circumstances. An impairment loss is recognized whenever evidence exists that the carrying value is not recoverable.

Management believes that no impairment charge is necessary because there are no impairment indicators on all assets at CGU level at 31 December 2014 and 2013.

(b) Taxes

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied. The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management believes that deferred tax assets are fully recoverable at the balance sheet date (Note 11).

The Company recognizes provision for impairment of input value added tax (VAT) and specific tax claims based on the Company's assessment of collection or recoverability through creditable tax certificates from the government. This assessment requires judgment regarding the ability of the government to settle or approve the application for claims/creditable tax certificates of the Company. Management believes that its input VAT and specific tax claims are fully recoverable as at balance sheet date (Notes 6 and 8).

(c) Joint arrangements

The Company holds 33.33% of the voting rights of a joint arrangement with other local oil companies over the Pandacan depot (Note 9). The oil companies have joint control over the arrangement as under their contractual agreement, unanimous consent is required from all parties to the agreement for all relevant activities.

The Company's joint arrangement provides all the parties to the agreement with direct rights to the net assets and obligations for liabilities of the Pandacan depot. Also, all the parties to the arrangement are the sole beneficiary of all the resources available in the Pandacan depot. Therefore, this arrangement is classified as a joint operation.

(d) Assessing contingencies

The Company is currently involved in various legal proceedings including a number of tax cases (Note 28). Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Company's defense in these matters and are based upon the probability of potential results. The Company's management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates, in the effectiveness of its strategies relating to these proceedings or the actual outcome of the proceedings (Notes 16.a and 28).

Note 5 - Cash

The account at 31 December 2014 and 2013 consists of cash in banks which are earning interest at the prevailing bank deposit rates.

The Company maintains cash deposits with universal and commercial banks in the Philippines. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country.

Cash at December 31 is maintained with the following type of financial institutions:

	2014	2013
Universal banks	3,561,634	5,593,633
Commercial banks	1,160,013	567,517
	4,721,647	6,161,150

Note 6 - Receivables, net

The account as at 31 December consists of:

	Notes	2014	2013
Trade receivables			
Third parties		9,886,399	11,339,775
Related parties	24	557,813	1,142,242
Provision for impairment of trade receivables from third parties		(214,665)	(215,376)
		10,229,547	12,266,641
Non-trade receivables from related parties	24	-	13,707
Current portion of long-term receivables	9	-	80,781
Other receivables			
Claims from government agencies			
Duty drawback and other claims		2,125,359	1,753,761
Specific tax		1,142,831	1,235,767
Miscellaneous		849,782	981,579
		4,117,972	3,971,107
Provision for impairment of other receivables		(342,925)	(668,210)
		3,775,047	3,302,897
		14,004,594	15,664,026

The more significant components of miscellaneous receivables pertain to creditable withholding taxes, interest receivables and cross-charging claims.

The gross carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	2014	2013
Philippine peso	13,560,259	15,565,561
US dollar	998,634	971,851
Other currencies	3,291	10,200
	14,562,184	16,547,612

The Company holds collateral as security for trade receivables from third parties in 2014 valued at P4.2 billion (2013 - P4.3 billion) consisting of cash securities, letters of credit or bank guarantees and Real Estate Mortgages (REM). These securities can be applied once the related customer defaulted on settlement of the Company's receivables based on agreed credit terms.

(a) Past due receivables but not impaired

The aging of past due but not impaired trade receivables from third parties as at 31 December are as follows:

Past due	2014	2013
Less than 30 days	363,127	158,252
31 - 60 days	113,978	50,897
61 - 90 days	15,789	10,717
91 - 180 days	87,518	6,072
	580,412	225,938

These balances relate to a number of independent customers for whom there is no recent history of default.

(b) Impaired receivables

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Impaired receivables are fully provided and movements in the provision for impairment of the receivables are presented in the table below.

	Note	Trade	Others	Total
At 1 January 2013		197,232	723,700	920,932
Provisions (Reversals)	21	18,144	(18,603)	(459)
Write-offs		-	(36,887)	(36,887)
At 31 December 2013		215,376	668,210	883,586
Provisions (Reversals)	21	(711)	(48,416)	(49,127)
Write-offs		-	(276,869)	(276,869)
At 31 December 2014		214,665	342,925	557,590

For the year ended 31 December 2014, total trade receivables written-off directly to statement of income amounted to P12.34 million (2013 - P29.6 million and 2012 - P30.7 million) based on the Company's assessment of recoverability (Note 21).

(c) Neither past due nor impaired

The credit quality of trade receivables from third parties at 31 December that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates:

Trade receivables (counterparties with internal credit rating)		2014	2013
A		1,975,365	1,898,045
B		2,456,362	3,738,044
C		2,915,120	3,103,402
D		1,744,475	2,158,970
Total trade receivables		9,091,322	10,898,461

- A - Customers with strong financial performance and with low probability of default.
- B - Customers with good financial strength but with some elements of risk in one or more financial or non-financial inputs.
- C - Customers with poor financial status and balance is secured with post-dated checks and other collaterals.
- D - Customers with a medium risk of default or are otherwise deemed 'No Credit' customers. The receivable, however, is deemed performing hence impairment provision is not necessary.

Trade and non-trade receivables from related parties are all current in age. The other classes and remaining balances within trade, non-trade and other receivables do not contain impaired assets.

There are no receivables that are neither past due nor impaired that have been renegotiated for the years ended 31 December 2014 and 2013.

Note 7 - Inventories, net

The account as at 31 December consists of:

	Note	2014	2013
Crude oil and finished products	20	18,830,491	28,183,489
Materials and supplies		354,112	363,325
At cost		19,184,603	28,546,814
Provision for inventory write-down		(2,820,947)	(15,618)
Provision for inventory obsolescence		(27,309)	(16,978)
At net realizable value		16,336,347	28,514,218

Cost of inventories included as part of cost of sales amounted to P225 billion (2013 - P187 billion and 2012 - P178 billion) (Note 20).

Details of and changes in provision for inventory losses as at and for the years ended 31 December are as follows:

	Note	Crude oil and finished products	Materials and supplies	Total
At 1 January 2013		76,716	10,024	86,740
Provisions	20	29,749	-	29,749
Write-offs		(83,893)	-	(83,893)
At 31 December 2013		22,572	10,024	32,596
Provisions	20	2,825,684	-	2,825,684
Write-offs		-	(10,024)	(10,024)
At 31 December 2014		2,848,256	-	2,848,256

Write-offs in 2014 mainly pertains to inventories tagged as defective and slow to non-moving lubricant groups and additives.

Cost of inventory written-down to net realizable value included in the provisions for inventory amounted to P2.8 billion (2013 - P15.6 million) (Note 20). The significant decline in the Company's net realizable value was a result of the continuing decline in oil prices, which started during the last quarter of the year.

Note 8 - Prepayments and other current assets

The account as at 31 December consists of:

	Note	2014	2013
Input VAT, net of output VAT		7,916,878	6,478,026
Prepaid corporate income tax		2,599,338	1,477,824
Advances to an entity under common shareholdings	24	762,000	449,231
Advance rentals		555,791	369,289
Prepaid specific tax		172,655	292,915
Prepaid insurance		9,778	226,892
Prepaid duties and taxes		8,651	83,619
Others		135,097	154,070
		12,160,188	9,531,866

Note 9 - Long-term receivables, rentals and investments, net

The account as at 31 December consists of:

	Notes	2014	2013
Loans to an entity under common shareholdings	24	379,678	575,459
Current portion	6	-	(80,781)
		379,678	494,678
Advances to an entity under common shareholdings	24	163,447	100,000
Provision for impairment of long-term receivables from related parties		(163,447)	-
		379,678	594,678
Advance rentals	26	850,070	661,613
Market investment loans (a)		83,817	57,566
Investments in associates (b)		43,676	49,638
Other long-term assets (b)		7,221	9,809
		984,784	778,626
Long-term receivables (c)		44,868	55,990
Provision for impairment of long-term receivables		(19,575)	(19,875)
		25,293	36,115
		1,389,755	1,409,419

(a) Market investments loans

Market investment loans consist of unsecured promissory notes collectible from third party customers on various dates up to year 2016 with interests ranging from 9% to 18%. These balances are fully performing since it relates to a number of customers with whom there is no recent history of default.

*(b) Investments in other entities**i. Joint operations*

The Company entered into an agreement with two (2) other oil companies to integrate their operations at the Pandacan depot while retaining individual ownership of their facilities (e.g. tanks, equipment, etc.). Pandacan Depot Services, Incorporated (PDSI) has been incorporated and registered with the Philippine SEC on 29 September 2004. Actual operations of PDSI started on 1 November 2004.

The Company's share in asset held-jointly as at 31 December 2014 amounting to P7.2 million (2013 - P7.8 million) is presented as part of other long-term assets. These balances were presented net of liabilities which are not considered material.

ii. Associates

In 2011, the Company purchased 44% interest in Bonifacio Gas Corporation at an acquisition price of P34 million from Shell Gas (LPG), Inc. (SGLPI).

The details of assets, liabilities and results of operations of associates, all of which are incorporated in the Philippines, are as follows:

	Interest	Assets	Liabilities	Net Assets	Income
2014					
Bonifacio Gas Corporation, associate	44%	125,850	46,839	79,011	25,574
Kamayan Realty Corporation, associate	40%	17,747	2,305	15,442	123,750
2013					
Bonifacio Gas Corporation, associate	44%	116,934	31,205	85,729	29,144
Kamayan Realty Corporation, associate	40%	15,077	1,171	13,906	13,906
2012					
Bonifacio Gas Corporation, associate	44%	131,289	60,384	70,905	19,355
Kamayan Realty Corporation, associate	40%	18,521	1,654	16,867	3,059

Bonifacio Gas Corporation is an entity engaged in wholesale distribution of LPG and was established to operate a centralized gas distribution system within the Bonifacio Global City. Kamayan Realty Corporation is an entity engaged in leasing and selling of real properties.

There are no contingent liabilities relating to the Company's interest in the associates.

iii. Subsidiary

In 2012, the Company completed the sale of its only subsidiary, SGLPI (a company incorporated and registered in the Philippines engaged in marketing and trading of liquefied petroleum products), to a local company. The Company recognized a P4.1 billion gain from the transaction, which was presented as a separate line item in the Company's statement of income. Dividend income received from SGLPI in 2012 amounted to P445.1 million (Note 24).

(c) Long-term receivables

As at 31 December 2014, long-term receivables of P183 million (2013 - P19 million) was impaired and fully provided.

Movements in provision for long-term receivables are as follow:

	Note	Related parties	Other long-term receivables	Total
At 1 January 2013		-	20,225	20,225
Write-offs	21	-	(350)	(350)
At 31 December 2013		-	19,875	19,875
Provisions	21	163,447	-	163,447
Reversal		-	(300)	(300)
At 31 December 2014		163,447	19,575	183,022

The individually impaired receivables mainly relate to Batangas Bay Carriers Inc., which is in difficult economic situation and are aged over a year.

As at 31 December 2014 and 2013, there are no other long-term receivables that are past due but not impaired. The other classes and balances within long-term receivables, rental and investments are fully performing.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The carrying amounts of loans to TRI, market investment loans and long-term receivables approximate their fair value as balances are amortized based on varying market rates, which falls under level 2 of the fair value hierarchy (Note 2.4).

The carrying amounts of the Company's long-term receivables are denominated only in Philippine Pesos.

Note 10 - Property and equipment, net

Property and equipment as at 31 December and the movements in the accounts for the year consist of:

	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Transportation	Asset retirement obligation	Assets under construction	Total
Cost							
At 1 January 2013	13,829,529	23,940,548	852,430	186,839	1,388,323	1,414,519	41,612,188
Acquisitions	200,075	275,515	8	15,489	-	1,368,933	1,860,020
Asset retirement obligation	-	-	-	-	163,780	-	163,780
Disposals/write off	(177,625)	(176,372)	(273)	(11,281)	(127,200)	-	(492,751)
Transfers/ Adjustments	362,161	571,609	672	-	(451)	(933,991)	-
At 31 December 2013	14,214,140	24,611,300	852,837	191,047	1,424,452	1,849,461	43,143,237
Acquisitions	-	-	-	16,544	-	6,008,570	6,025,114
Asset retirement obligation	-	-	-	-	28,935	-	28,935
Disposals/write off	(30,607)	(24,919)	(60,934)	(9,969)	(41,214)	-	(167,643)
Reclassification to program software	613,559	758,252	27,058	2,683	-	(1,416,466)	(14,914)
At 31 December 2014	14,797,092	25,344,633	818,961	200,305	1,412,173	6,441,565	49,014,729
Accumulated depreciation and amortization							
At 1 January 2013	(8,177,342)	(17,131,576)	(806,278)	(149,941)	(796,175)	-	(27,061,312)
Depreciation and amortization (Notes 20 and 21)	(401,698)	(1,134,022)	(18,491)	(11,417)	(141,766)	-	(1,707,394)
Disposals	138,457	151,842	273	8,629	103,490	-	402,691
Transfers/Adjustments	(12,485)	12,422	-	-	63	-	-
At 31 December 2013	(8,453,068)	(18,101,334)	(824,496)	(152,729)	(834,388)	-	(28,366,015)
Depreciation and amortization (Notes 20 and 21)	(596,240)	(1,341,999)	(16,926)	(14,750)	(194,795)	-	(2,164,710)
Disposals	16,925	19,107	60,934	8,545	41,214	-	146,725
Transfers/Adjustments	613,559	758,252	27,058	2,683	-	(1,401,552)	-
At 31 December 2014	(8,418,824)	(18,665,974)	(753,430)	(156,251)	(987,969)	(1,401,552)	(30,384,000)
Net book values							
At 31 December 2013	5,761,072	6,509,966	28,341	38,318	590,064	1,849,461	14,777,222
At 31 December 2014	6,378,268	6,678,659	65,531	44,054	424,204	5,040,013	18,630,729

The balance of property and equipment as at 31 December 2014 includes fully depreciated assets still in use amounting to P8.7 billion (2013 - P8 billion).

Assets under construction represent cost of ongoing capital projects in the retail and refinery business segments.

The Company also recorded asset retirement obligation covering certain assets in Pandacan and other depots and installation around the country amounting to P1.5 billion as at 31 December 2014 and 2013. The amount of provision is based on external study which takes into consideration the required remediation based on the requirements, if any, of local ordinance. Estimated amount of future obligation is discounted using a discount rate of 3% (Note 16).

Note 11 - Provision for income tax; deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts at 31 December are as follows:

	2014	2013
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	6,127,294	2,123,961
Deferred tax assets to be recovered within 12 months	57,138	-
	6,184,432	2,123,961
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(890,504)	(12,817)
Deferred tax liabilities to be settled within 12 months	-	(622,450)
	(890,504)	(635,267)
Deferred tax assets, net	5,293,928	1,488,694

The Company's deferred income tax assets (liabilities) at 31 December consist of the tax effects of the following temporary differences:

	2014	2013
Deferred income tax assets (liabilities)		
Provision for inventory losses	854,477	9,779
Unamortized contribution for past service cost, net	403,781	436,512
Asset retirement obligation	389,086	276,505
Provision for remediation costs	245,660	246,924
Operating lease - effect of straight lining	174,822	177,223
Provision for impairment of receivables	119,306	64,613
Claims for tax credits/duty drawbacks	102,878	200,463
Unrealized mark-to-market (gains) loss	40,971	(12,817)
Share-based compensation	22,547	24,763
Unrealized foreign exchange gains	16,167	(1,686)
Retirement benefit obligation	(199,700)	(220,601)
Prepaid duties and taxes	(690,804)	(400,163)
Other provisions	527,858	493,558
	2,007,049	1,295,073
NOLCO	3,068,924	-
MCIT	217,955	193,621
Deferred income tax assets, net	5,293,928	1,488,694

The gross movements in net deferred income tax assets are as follows:

	2014	2013
At 1 January	1,488,694	1,480,186
Charged (Credited) to profit and loss	3,686,359	(103,212)
Charged (Credited) to other comprehensive income	94,541	(81,901)
MCIT	24,334	193,621
At 31 December	5,293,928	1,488,694

Realization of the future benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The Company's management has considered these factors in arriving at its conclusion that the deferred income tax assets at 31 December 2014 and 2013 are fully realizable.

The MCIT can be applied against the Company's regular income tax within the next three years immediately following the taxable year in which the MCIT was incurred. The Company recognized MCIT of P24 million in 2014 and P194 million in 2013 which will expire in 2017 and 2016, respectively.

NOLCO can be carried over as a deduction from gross taxable income for three consecutive taxable years immediately following the year of such loss. During the year, the Company recognized deferred income tax of P3 billion on NOLCO amounting to P10.3 million which will expire in 2017.

The details of provision for (benefit from) income tax for the years ended 31 December follow:

	2014	2013	2012
Current	(210,604)	77,895	981,218
Deferred	(3,686,359)	103,212	306,665
	(3,896,963)	181,107	1,287,883

The reconciliation of provision for (benefit from) income tax computed at the statutory rate to actual provision for income tax shown in the statements of income is shown below:

	2014	2013	2012
Income tax (benefit) at statutory income tax rate at 30%	(3,715,663)	(219,300)	1,826,183
Income tax effect of:			
Non-deductible expenses	37,161	29,065	416,531
Limitation on deductible interest expense	508	1,149	634
Income subject to capital gains tax	-	351,119	(1,240,096)
Dividend income	-	-	(136,268)
Interest income subjected to final tax	(1,523)	(3,447)	(1,923)
Income subjected to 8% final tax	(7,585)	(12,908)	(14,950)
Non-taxable income	743	-	-
(Benefit from) Provision for income tax before final taxes	(3,686,359)	145,678	850,111
Final taxes on interest and other charges	(210,604)	35,429	437,772
(Benefit from) Provision for income tax at effective tax rate	(3,896,963)	181,107	1,287,883

Note 12 - Other assets, net

The account as at 31 December consists of:

	Note	2014	2013
Pension asset	25	665,668	735,337
Available-for-sale financial assets (a)		262,206	293,807
Program softwares (b)		14,333	134,326
Others		23,311	23,312
		965,518	1,186,782

(a) *Available-for-sale financial assets*

Available-for-sale financial assets mainly represent equity securities and proprietary club shares which are carried at fair value (Note 2.4). Details of the account at 31 December are as follows:

	2014	2013
Cost	11,525	29,638
Fair value adjustments recognized directly in other comprehensive income		
1 January	264,169	334,437
Change during the year	(13,488)	(70,268)
31 December	250,681	264,169
	262,206	293,807

(b) *Program softwares*

Program softwares as at 31 December and the movements in the accounts for the years consist of:

	Notes	2014	2013
At cost			
1 January		880,285	880,285
Reclassifications from property and equipment AUC		14,914	-
Disposal		(6,412)	-
31 December		888,787	880,285
Accumulated amortization			
1 January		(745,959)	(570,247)
Amortization for the year	20, 21	(134,587)	(175,712)
Disposal		6,092	-
31 December		(874,454)	(745,959)
Net book value		14,333	134,326

Note 13 - Accounts payable and accrued expenses

The account as at 31 December consists of:

	Notes	2014	2013
Trade payables			
Third parties		5,649,659	4,857,122
Related parties	24	8,841,787	6,870,308
		14,491,446	11,727,430
Non-trade payables from related parties	24	861,914	430,318
Other payables			
Project-related costs and advances		1,813,613	712,626
Rent and utilities	26	1,079,304	23,903
Employee benefits		629,765	245,205
Advertising and promotions		168,302	331,886
Duties and taxes		112,996	191,667
IT-related costs		46,929	91,013
Interest	14, 15	41,145	16,208
Supply and distribution		6,346	5,933
Others		641,162	515,573
		19,892,922	14,291,762

Note 14 - Short-term borrowings

The account as at 31 December consists of unsecured short-term loans from various local commercial banks intended to fund crude and product importations and working capital requirements. The loans mature on various dates within one year after balance sheet date.

The average annual interest rate on local borrowings for 2014 was 1.79% (2013 - 2.77% and 2012 - 4.01%). Total interest expense charged to operations in 2014 arising from short-term loans amounted to P381.7 million (2013 - P669.5 million and 2012 - P806.9 million) (See Note 23).

There are no borrowings related to acquisition, construction or production of a qualifying asset in 2014, 2013 and 2012.

Note 15 - Loans payable

In January 2014, the Company entered into a loan agreements with Bank of the Philippine Islands (BPI) and Metropolitan Bank & Trust Company (MBTC). Details of the loan agreements are as follows:

Amount	Interest	Terms
BPI		
P5,000,000	2.7632% as at 31 December effective until next repricing	Payable after thirty-six (36) months reckoned from the drawdown date on 10 January 2014. Principal is payable in lump sum at maturity date. Interest is repriced every three (3) months.
MBTC		
P7,000,000	0.0421% as at 31 December effective until next repricing	Payable after thirty-six (36) months reckoned from the drawdown date on 29 January 2014. Principal is payable in lump sum at maturity date. Interest is repriced every three (3) months.

On 2 March 2012, the Company entered into a loan agreement with BPI to obtain an unsecured loan of P11 billion. Details of the loan agreement follow:

Amount	Interest	Terms
P11,000,000	2.8947% as at 31 December effective until next repricing.	Payable after thirty-six (36) months reckoned from the drawdown date on 2 March 2012. Principal is payable in lump sum at maturity date. Interest is repriced every three (3) months.

As at 31 December 2014, the P11 billion loan is presented as part of current liabilities as it becomes due and demandable within 2015.

Total interest expense charged to operations in 2014 arising from these loans amounted to P696.4 million (2013 - P322.84 million and 2012 - P305.96 million) (See Note 23).

Under the loan agreements, the Company is required to comply with certain covenants, as follows:

- Maintenance of the Company's legal status.
- Ensure that at all times the loans rank at least *pari passu* with the claims of all other unsecured and insubordinated creditors except those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.

- The Company shall not create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than a permitted encumbrance as defined in the loan agreements.
- The Company shall duly pay and discharge all taxes, assessment and charges of whatsoever nature levied upon or against it, or against its properties, revenues and assets prior to the date on which penalties attach thereto, and to the extent only that the same shall be contested in good faith and by appropriate legal proceedings.

The Company is in compliance with the covenants as at reporting periods presented. See also Note 3.1.3 for the maturity analysis of these loans.

The carrying amounts of loans payable approximate their fair values as balances are subject to changing interest rates based on market, which falls under level 2 of fair value hierarchy (Note 2.4).

Note 16 - Provisions and other liabilities

The account as at 31 December consists of:

	Notes	2014	2013
Provision for legal cases (a)		1,561,022	1,504,808
Asset retirement obligation (b)	10	1,611,137	1,480,711
Provision for remediation and demolition costs (c)		818,867	823,081
Operating lease	26	693,086	1,110,853
Cash security deposits		379,744	333,806
Other liabilities		155,618	80,571
		5,219,474	5,333,830

(a) Provision for legal case

The Company has recorded provisions for tax and legal items relating to the regular operations of the Company. Movements in the provision for legal case follow:

	Note	2014	2013
1 January		1,504,808	1,448,594
Provisions, net	22	56,214	56,214
31 December		1,561,022	1,504,808

(b) Asset retirement obligation

Movements in the provision for asset retirement obligation follow:

	Note	2014	2013
1 January		1,480,711	1,328,950
Additions		28,935	163,780
Accretion	23	188,610	78,628
Charges		(87,119)	(90,647)
31 December		1,611,137	1,480,711

Asset retirement obligation represents the future estimated dismantling costs of various assets used in retail, depot and commercial operations. Average remaining life of the related assets is 6 years as at 31 December 2014 (2013 - 7 years). These are stated at present value at 31 December using a discount rate of 3%.

(c) Provision for remediation and demolition costs

Movements in the provision for remediation and demolition costs follow:

	Note	2014	2013
1 January		823,081	829,266
Accretion	23	33,080	35,019
Charges		(37,294)	(41,204)
31 December		818,867	823,081

Provision for environmental liabilities (remediation and demolition) is recorded where there is a constructive or legal obligation to remediate any known environmental damages arising in the ordinary course of business. The amount recorded is generally based on independent evaluation of environmental firms. The estimated amount of provision is recorded at net present value discounted at 5%.

Note 17 - Capital stock

Capital stock and treasury shares as at 31 December 2014, 2013 and 2012 consist of:

	Number of shares	Amount
Authorized capital stock, common shares at P1 par value per share	1 billion	1,000,000
Issued shares	758,885,514	758,885
Treasury shares	(67,614,089)	(507,106)
Issued and outstanding shares	691,271,425	251,779

On 24 February 2015, the BOD approved the proposed increase in capitalization by P18 billion. This would consequently increase authorized capital stock and its corresponding rights.

Note 18 - Retained earnings; Dividends

Cash dividends declared in 2014, 2013 and 2012 follow:

Date of declaration	Per share	2014	2013	2012
16 April 2013	0.69	-	475,812	-
17 April 2012	7.04	-	-	9,143
17 April 2012	7.04	-	-	4,854,837
		-	475,812	4,863,980

No dividends were declared during 2014. Included in the balance of retained earnings is the amount of P1.1 billion representing the retained earnings of Shell Philippines Petroleum Corporation as at 30 June 1999 upon its merger with the Company. The said amount is available only for stock dividends.

Note 19 - Earnings per share

Computation of earnings per share for the years ended 31 December follow:

	Note	2014	2013	2012
Earnings available to stockholders:				
Profit (Loss) for the year		(8,488,580)	(912,108)	4,799,392
Weighted average number of shares	17	758,885,514	758,885,514	758,885,514
Treasury shares	17	(67,614,089)	(67,614,089)	(67,614,089)
		691,271,425	691,271,425	691,271,425
Earnings (Loss) per share, basic and diluted		(12.28)	(1.32)	6.94

Note 20 - Cost of sales

The components of cost of sales for the years ended 31 December are as follows:

	Notes	2014	2013	2012
Crude and product costs	7, 24	208,027,852	170,992,490	160,942,052
Duties and specific tax		6,593,207	5,442,979	5,700,114
Logistics and transshipment		5,604,636	4,572,396	4,454,862
Manufacturing expenses		2,621,261	2,962,156	107,702
Freight and wharfage		994,294	1,945,351	5,694,825
Depreciation and amortization	10, 12	830,083	787,023	728,383
Salaries and other employee benefits		722,840	516,415	483,233
		225,394,173	187,218,810	178,111,171

The more significant components of manufacturing expenses consist of insurance, transport costs, supplies and rentals.

Note 21 - Selling, general and administrative expenses

The components of selling, general and administrative expenses for the years ended 31 December are as follows:

	Notes	Selling			General and administrative		
		2014	2013	2012	2014	2013	2012
Outside services		1,639,347	2,182,087	1,735,430	531,041	629,639	577,734
Depreciation and amortization	10, 12	1,342,849	927,630	868,650	126,365	168,453	177,867
Rentals	26	1,307,875	1,266,926	1,188,408	83,191	70,462	75,973
Compensation, pension cost and employee benefits	24, 25	1,277,130	996,009	1,341,316	448,400	461,954	347,346
Repairs and maintenance		1,088,788	233,104	414,944	33,403	30,432	41,207
Advertising and promotions		606,288	580,534	511,337	133,506	45,008	69,370
Travel and transportation		141,226	180,390	173,946	32,273	9,580	35,193
Communication and utilities		136,331	172,152	152,485	445,898	443,561	375,871
Write-off/Impairment (Reversal) of receivables	6, 9	127,107	29,106	4,001	(747)	-	(12,945)
Insurance		61,186	8,084	1,424	204,179	385,401	304,017
Miscellaneous		7,875	48,162	48,111	11,703	131,593	210,524
		7,736,002	6,624,184	6,440,052	2,049,212	2,376,083	2,202,157

Note 22 - Other operating income, net

The components of other operating income (expense) for the years ended 31 December are as follows:

	Notes	2014	2013	2012
Retailer fee, rental income and franchise commission		330,083	279,069	247,970
Royalties	24	68,822	66,207	71,814
Loss on disposal of property and equipment	10	(16,582)	(78,782)	(122,513)
Commissions		(31,798)	(15,720)	(19,815)
Provision for legal cases, net	16	(56,214)	(56,214)	(14,619)
Provision for remediation and demolition cost		-	(59,765)	(19,069)
Others, net		61,653	85,882	17,272
		355,964	220,677	161,040

The more significant components of the 'Others, net' account in the table above consist of concession fees and contracting commissions.

Note 23 - Finance income (expense), net

The components of finance income (expense) for the years ended 31 December are as follows:

	Notes	2014	2013	2012
Finance income				
Realized foreign exchange gain	27	219,804	-	627,071
Interest income	5, 9	19,688	31,793	20,229
Unrealized foreign exchange gain	27	-	-	71,225
Unrealized mark-to-market gain	24	-	-	35,203
		239,492	31,793	753,728
Finance expense				
Interest and finance charges	13,14,15	(1,250,786)	(1,175,902)	(1,382,343)
Accretion expense	16	(221,690)	(113,647)	(107,745)
Unrealized foreign exchange loss	27	(179,292)	(76,454)	-
Realized mark-to-market loss	24	(149,274)	-	-
Unrealized mark-to-market loss		(59,525)	(11,343)	-
Bank charges	14, 15	(8,220)	(5,467)	(11,547)
Realized foreign exchange loss	27	-	(1,060,049)	-
		(1,868,787)	(2,442,862)	(1,501,635)
		(1,629,295)	(2,411,069)	(747,907)

The notional principal amount of the forward contract as at 31 December 2014 amounted to P220 million. The fair values of the related asset amounting to P1.7 million is booked under receivables and the related liability amounting to P173.1 million is booked under accounts payable and accrued expenses in the balance sheet.

Note 24 - Related party transactions

In the normal course of business, the Company transacts with companies, which are considered related parties under PAS 24, "Related Party Disclosures".

The transactions and outstanding balances of the Company with related parties as at and for the year-ended 31 December 2014 are as follows:

(a) Entities under common shareholdings

	Notes	Transactions	Receivables (Payables)	Terms and conditions
Purchases of goods and services	13	154,075,877	(9,591,144)	Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any guarantee. See (i), (ii) and (iv).
Leases	13	172,519	(27,924)	Payable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any guarantee. See (iii).
Sales	6	8,540,097	557,813	Receivable balances are to be settled in cash and are due within 30 to 60 days from date of each transaction. These are non-interest bearing and not covered by any security.
Royalty fee (v)	22	68,822	-	Payable balances are to be settled in cash within 30 days from month end.
Loans extended by the Company (vi)	9	-	379,678	Principal is due for collection in cash once the property of TRI associated to this loan is sold. Interest of 3% - 7% is being collected in various quarterly installments up to February 2029. The receivable balance is not covered by any security.
Interest on loans extended by the Company	6	13,454	-	
Advances extended by the Company (iv)	9	6,216	163,447	Advances of the Company to FPIC are recovered through offsetting over an approximated period of twenty-four (24) months against future FPIC billings for services rendered thru the WOPL and BOPL. These advances are not covered by any security. Full provision was recognized for the balance in 2014.
Admin billings (vii)	13	(91,954)	(84,633)	The non-trade payable balances to be settled in cash and are due within 15 days from month end. These are non-interest bearing and are not covered by any security.
Pension	25			
Contributions to the plan		412,907	-	Contributions to the plan and investing transactions of the plan are approved by the Retirement Plan Board of Trustees.
Plan assets - investments		-	25,831	
Transfer of obligations due to transfer of employees		5,528	-	
Advances	8	370,000	762,000	Advances pertain to assistance extended by the Company to the Retirement Fund. The balance is collectible in the next reporting period through direct contribution of the Fund to the Company's plan assets. The balance is non-interest bearing and is not covered by any security.

(b) Parent company

	Note	Transactions	Payable	Terms
Dividends declared	18	-	(9,668)	Dividends are usually paid within 12 months from reporting date.

(c) Key management personnel

	Note	Transactions	Balances	Terms
Current				
Salaries and other short-term employee benefits		95,910	-	
Non-current				
Post-employment benefits	25	7,016	39,412	The terms and arrangements of these non-current employee benefits are summarized in the related notes.
Share-based compensation		16,003	-	

The transactions and outstanding balances of the Company with related parties for the comparative figures as at and for the years ended 31 December 2013 and 2012 are presented in the table below. The terms and arrangements presented for 2014 also apply to the transactions and balances for 2013 and 2012.

(a) Entities under common shareholdings

		2013		2012	
	Notes	Transactions	Receivables (Payables)	Transactions	Receivables (Payables)
Purchases of goods and services	13	148,730,459	(7,273,455)	153,524,313	(13,796,969)
Leases	13	125,583	(27,171)	132,674	(23,608)
Sales	6	8,622,605	1,142,242	9,392,669	1,910,077
Royalty fee (v)		397,989	-	355,746	-
Loans extended by the Company (vi)	9	-	575,459	-	575,459
Interest on loans extended by the Company	6	13,707	13,707	16,972	16,972
Advances extended by the Company (iv)	8, 9	-	157,231	100,000	180,802
Admin billings (vii)		84,370	-	127,573	160,891
Pension	25				
Contributions to the plan		442,263	-	542,921	-
Plan assets - investments		-	270,763	-	308,335
Transfer of obligations due to transfers of employees		40,754	-	32,646	-
Advances	8	392,000	392,000	-	-

(b) Parent company

		2013		2012	
	Note	Transactions	Payable	Transactions	Payable
Dividends declared	18	486,376	(10,090)	3,264,821	(9,143)

(c) Subsidiary

		2013		2012	
	Notes	Transactions	Balances	Transactions	Balances
Dividends received	9	-	-	445,158	-

(d) Key management personnel

	Note	2013		2012	
		Transactions	Balances	Transactions	Balances
Current					
Salaries and other short-term employee benefits		100,789	-	93,687	-
Non-current	25				
Post-employment benefits		8,523	21,670	23,915	-
Share-based compensation		32,716	-	40,387	-

- (i) The Company purchases crude and other oil products from Shell International Eastern Trading Co. (SIETCO), an entity under common shareholdings. The Company's crude purchases are being processed through its refinery in Batangas. Cost of purchases during the year amounted to P153.4 billion (2013 - P131.5 billion and 2012 - P129.2 billion). As at 31 December 2014, balances payable to SIETCO amounted to P8.5 billion (2013 - P5.9 billion and 2012 - P11.1 billion). During the year, the Company recognized mark-to-market loss of P149 million (2013 - nil; 2012 - P35 million gain), in relation to its aviation product purchases from SIETCO.
- (ii) Under existing agreements with Shell International Petroleum Company (SIPC) of the United Kingdom and Shell Global Solutions International B.V. (SGS) of The Netherlands, an entity under common shareholdings, SIPC and SGS provide management advisory, business support, and research and development and technical support services to the Company under certain terms and conditions. These agreements shall remain in full force until terminated by either party by giving the other party not less than 12 months prior written notice to that effect. Cost of the services charged to operations amounted to P1.9 billion in 2014 (2013 - P1.7 billion and 2012 - P1.7 billion) (Note 21). As at 31 December 2014, balances payable to SIPC amounted to P522 million (2013 - P124 million and 2012 - P47 million).
- (iii) The Company leases from TRI the Shell House office building for a period of three years, renewable annually thereafter. Rent expense charged to operations amounted to P87.5 million in 2014 (2013 - P79.6 million and 2012 - P78 million) (Note 22). As at 31 December 2014, there are no outstanding payable related to the Shell House lease (2013 - nil and 2012 - P2 million). The Company also leases from TRI, a portion of the Tabangao Refinery land area and lots for several depots located around the country. Lease term ranges from 5 to 50 years and is renewable, thereafter. Rent expense charged to operations amounted to P85 million in 2014 (2013 - P46 million and 2012 - P54.7 million). As at 31 December 2014, payable related to the refinery and lots for depots is P27.9 million (2012 - P27.2 million and 2012 - P21.6 million).
- (iv) The Company entered into separate agreements in 1969 for the use of the white oil pipeline (WOPL) and in 1981 for the use of the black oil pipeline/spurline (BOPL) owned by FPIC for delivery of products from the Company's Tabangao refinery to its Pandacan and Sucat depots for a fee per barrel of product moved. Total costs related to this agreement in 2014 amounted to P2 million (2013 - P130 million and 2012 - P118 million). In 2012, the Company extended a cash advance to FPIC amounting to P163.4 million which can be recovered against future billings for services rendered thru WOPL and BOPL (Note 9). In 2014, the Company provided an allowance for this cash advance due to financial difficulty of FPIC.

- (v) On 1 January 2008, the Company and Shell Brands International AG (SBI), an entity under common shareholdings, entered into Trade Marks and Manifestation License Agreement pursuant to which SBI, the licensor, grants the Company, the licensee, a non-exclusive right to reproduce, use, apply and display the Shell trade mark and other manifestation. In consideration, the Company shall pay a royalty fee, which shall be computed as certain percentage of sales. Royalty rate varies from 0.01% to 0.58% depending on product type. This agreement can be terminated by either party without any penalty.
- (vi) The outstanding loans to Tabangao Realty, Inc. (TRI) were substantially used for the construction of pipeline and trestle facilities and acquisition of land and building. The current portion of the loans as at 31 December 2014 amounted to nil (2013 - P80.8 million). In a separate Memorandum of Agreement, the Company agreed with TRI to operate, maintain and secure said facilities for a fee.
- (vii) The Company receives billings from entities under common shareholdings for group-shared expenses related to IT maintenance, personnel and other administrative costs.

Note 25 - Employee benefits

(a) Retirement plan

The Company has a non-contributory retirement gratuity plan (Plan) for the benefit of its regular employees. The assets of the Plan are maintained by a trustee bank. The Plan provides for payment of benefits, either in lump sum or in installments at the option of the retirees, upon attainment of the normal retirement age of 60, or, upon retirement/separation at an earlier age.

The pension obligation is determined using the "Projected Unit Credit Cost" (PUC) method. Under the PUC method, the annual normal cost for the portion of the retirement is determined as the amount necessary to provide for the portion of the retirement benefit accruing during the year.

The actuarial present value of the retirement benefits obligation under the plan is measured in terms of actuarial assumptions for discount rate, salary increases, retirement rates and mortality using the 1985 Unisex Annuity Table and 1952 Disability Table. The rate used to discount post-employment benefit obligations are based on the calculated single effective discount rate determined by discounting the projected benefit payments using different term-dependent derived zero-coupon government bond yields.

The actuarial valuation of the Company's retirement plan was performed by an independent actuary at 31 December 2014, 2013 and 2012 using the projected unit credit method. The latest actuarial valuation report prepared by the independent actuary was for the year ended 31 December 2014. The principal assumptions were:

	2014	2013	2012
Discount rate	4.40%	5.30%	5.80%
Future salary increases	6.00%	6.00%	6.00%

Assumptions regarding future mortality experience are set based on published statistics and experience in each territory. The average life expectancy in years of a pensioner retiring at age 66 on the balance sheet date is 41 years for male and 34 years for female.

The overall investment policy and strategy of the retirement plan is based on the Board of Trustees' suitability assessment, as provided by its investment advisors, in compliance with Bangko Sentral ng Pilipinas requirements. The Company does not perform an asset-liability matching study. However, the retirement plan has a Risk and Audit Committee who performs quarterly review of risks relevant to running the retirement fund. The same committee prepares review highlights for presentation to the retirement plan Board of Trustees. Responsibility for governance of the retirement plan lies with the Board of Trustees.

The following are details of the pension expense and pension asset as at and for the years ended 31 December are as follows:

	2014	2013	2012
Pension asset	665,668	735,337	195,526
Pension expense	167,440	175,454	203,219

The amount of pension asset (liability) recognized in the balance sheets is determined as follows:

	2014	2013	2012
Present value of defined benefit obligation	(4,020,046)	(3,484,709)	(3,134,624)
Fair value of plan assets	4,685,714	4,220,046	3,330,150
Pension asset	665,668	735,337	195,526

The movement in the pension asset recognized in the balance sheets as at 31 December follows:

	Note	2014	2013	2012
1 January		735,337	195,526	(230,906)
Pension expense		(167,440)	(175,454)	(203,219)
Actual contributions		412,907	442,263	542,921
Remeasurement gains (losses)		(315,136)	273,002	86,730
31 December	12	665,668	735,337	195,526

Pension expense recognized in the statements of income is as follows:

	Note	2014	2013	2012
Current service cost		206,414	186,795	187,509
Interest cost		(38,974)	(11,341)	15,010
Transferred liability during the year		-	-	700
	21	167,440	175,454	203,219

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013	2012
1 January	3,484,709	3,134,624	3,082,821
Interest cost	184,689	181,808	200,383
Current service cost	206,414	186,795	187,509
Benefits paid	(284,303)	(206,188)	(169,634)
Transfer of employees from/to entities under common control	(5,528)	(40,754)	(32,646)
Remeasurement (gains) losses from:			
Changes in financial assumptions	371,903	191,350	(80,253)
Experience adjustments	62,162	37,074	(53,556)
31 December	4,020,046	3,484,709	3,134,624

Changes in the fair value of the plan assets follow:

	2014	2013	2012
1 January	4,220,046	3,330,150	2,851,915
Interest income	223,663	193,149	185,373
Contributions	412,907	442,263	542,921
Benefits paid	(284,303)	(206,188)	(169,634)
Transferred from/to entities under common shareholdings, net	(5,528)	(40,754)	(33,346)
Remeasurement gains (losses) from experience adjustments	118,929	501,426	(47,079)
31 December	4,685,714	4,220,046	3,330,150

The carrying value of the plan assets as at the years ended 31 December 2014, 2013 and 2012 are equivalent to the fair values presented above and are comprised mainly of investments in equity securities and similar financial assets, which account for 89% of the total plan assets. Plan assets are comprised of:

	2014	2013	2012
Investments in debt securities			
Government securities	607,034	72,068	65,631
Loans and discounts	-	-	53,765
Investment in equity securities			
Unit investment trust funds	3,975,581	4,033,590	2,945,936
Other equity investments	13,162	12,418	10,332
Others	89,937	101,970	254,486
	4,685,714	4,220,046	3,330,150

Plan assets as at 31 December 2014 excludes an amount equivalent to P1.7 billion (2013 - P1.9 billion and 2012 - P1.9 billion) pertaining to restricted investments in shares of an entity under common shareholdings engaged in real estate leasing.

Experience adjustments on plan assets and plan liabilities for the year ended December 31:

	2014	2013	2012
Plan assets - gain (loss)	118,929	501,426	(47,079)
Plan liabilities - loss (gain)	62,162	37,074	(53,556)

Expected contribution to the plan in 2015 is P209 million.

The Company has no other transactions with the fund except for those noted above and summarized in Note 24.

The expected undiscounted maturity benefit payments for the next 10 years as at 31 December are as follows:

	2014	2013
Following year	76,512	122,031
Between 2 to 3 years	434,898	372,362
Between 3 to 5 years	393,964	296,436
Over 5 years	2,087,494	1,961,091

(b) Share-based compensation

RDS operates a Performance Share Plan (PSP) covering all of its subsidiaries' employees who are not members of the Executive Committee. PSP for conditional shares are awarded to eligible employees based on their sustained performance and value. The extent to which shares are finally delivered at the end of a three-year performance period at no cost but delivery depends upon the performance of the Shell group.

A Monte Carlo option pricing model is used to estimate the fair value of the share-based compensation expense arising from the Plan. The model projects and averages the results for a range of potential outcomes for the vesting conditions, the principal assumptions for which are the share price volatility and dividend yields for RDS and four of its main competitors over the last three years and the last ten years.

Movements of the shares granted in respect of the PSPC for the period ended 31 December 2014 and 2013 are as follow:

	2014		2013	
	Shares	Weighted average fair value (in U.S. Dollar)	Shares	Weighted average fair value (in U.S. Dollar)
Shares granted as at 1 January	163,255	30.38	198,115	30.38
Grants during the year	62,080	35.68	59,910	29.46
Shares delivered during the year	(54,542)	26.61	(90,720)	29.42
Cancelled/forfeited during the year	-	-	(4,050)	31.65
Shares granted as at 31 December	170,793	30.89	163,255	31.22

The total share-based compensation recognized in the statements of income during the year amounted to P74 million (2013 - P79 million; 2012 - P108 million).

Note 26 - Lease and other commitments

- (a) The Company has separate agreements with various ship owners for the use of white and black oil vessels for a fixed time charter fee per day. Amount charged to operations under this contract amounted to P1.9 billion for each of the three years ended 2014.
- (b) The Company has depots for the distribution of oil products located in various sites all over the country. All of these depots are leased from various lot owners ranging from 5-25 years contracts renewable upon mutual agreement by both parties. These are integral part of the downstream network as fuel products are stored and loaded to tank trucks and barges from these depots. Amount charged to operations amounted to P2.0 billion for 2014 (2013 - P2.0 billion and 2012 - P1.7 billion).
- (c) The Company has existing agreements with various lessors covering a number of retail stations. Such agreements have terms ranging from 1 to 25 years renewable upon mutual agreement of the parties. Likewise, the Company entered into various lease agreements covering offices, retail sites and storage points. Amount charged to operations amounted to P1.0 billion for each of the three years ended 2014.

The rent expenses related to these agreements and lease arrangements with an entity under common shareholdings (Note 24) are recorded as part of cost of sales in the statement of income (Note 20) except for the lease of Shell House, which was recognized as part of selling, general and administrative expenses.

The long-term portion of advance rentals on these leases is included under 'Long-term receivables, rentals and investments, net' account (Note 9); the current portion is included under 'Prepayments and other current assets' account (Note 8) in the balance sheets.

Under PAS 17, the Company recorded additional lease accruals amounting to P12 million arising from lease straight-lining for each of the three years ended 2014.

The Company's future minimum rental commitments related to the above leases as at 31 December are as follows:

	2014	2013	2012
Less than 1 year	3,246,615	2,979,933	3,246,615
More than 1 year but not more than 5 years	4,702,344	7,576,757	4,703,344
Over 5 years	3,974,258	5,170,735	3,974,258

- (d) In October 2013, the local company which bought the Company's shares over SGLPI in 2012 (Note 9) filed for claims in relation to the supply chain of SGLPI that was adversely affected by a supervening event. As such, the Company entered into a new agreement to settle the claims of the local company amounting to P1.2 billion. The said amount was settled in December 2013 and was charged to the statement of income under other non-operating income (expense).

Note 27 - Foreign currency denominated assets and liabilities

The Company's foreign currency assets and liabilities as at 31 December are as follows:

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange rate	Peso equivalent
2014					
US dollar	64,807	304,877	(240,070)	44.62	(10,711,923)
Euro	3,251	5,251	(2,000)	54.34	(108,680)
Japanese yen	4,191	248,545	(244,354)	0.37	(90,411)
UK pound	99	1,194	(1,095)	69.41	(76,004)
Singapore dollar	439	2,604	(2,165)	33.70	(72,961)
Chinese yuan	-	2,260	(2,260)	7.18	(16,227)
Australian dollar	-	84	(84)	36.21	(3,041)
Canadian dollar	-	8	(8)	38.40	(307)
Swedish kroner	-	16	(16)	5.69	(91)
Malaysian ringgit	228	2	226	12.79	2,891
					(11,076,754)

Currency	Assets	Liabilities	Net foreign currency assets (liabilities)	Exchange rate	Peso equivalent
2013					
US dollar	37,104	234,293	(197,189)	44.40	(8,755,192)
UK pound	-	455	(455)	72.90	(33,170)
Euro	1,211	1,555	(344)	60.82	(20,922)
Singapore dollar	-	469	(469)	35.00	(16,415)
Malaysian ringgit	-	86	(86)	13.48	(1,159)
Australian dollar	-	2	(2)	39.46	(79)
Japanese yen	1,843	23,107	(21,264)	0.42	(8,931)
Chinese yuan	-	1,959	(1,959)	7.31	(14,320)
					(8,850,188)
2012					
US dollar	53,289	365,845	(312,556)	41.05	(12,830,424)
Euro	1,136	1,441	(305)	54.53	(16,632)
Singapore dollar	-	329	(329)	33.70	(11,087)
Chinese yuan	-	1,389	(1,389)	6.61	(9,181)
UK pound	-	111	(111)	66.32	(7,362)
Japanese yen	-	3,956	(3,956)	0.48	(1,899)
Malaysian ringgit	1,275	63	1,212	13.47	16,326
Australian dollar	43	22	21	42.67	896
					(12,859,363)

Note 28 - Contingencies

(a) Excise tax on importations of Catalytic Cracked Gasoline (CCG) and Light Catalytic Cracked Gasoline (LCCG)

The Company imported substances such as CCG and LCCG which it combined and blended with other petroleum substances to produce finished gasoline products that are compliant with the requirements of the Clean Air Act and the Philippine National Standard.

In 2004, the then Deputy Commissioner of the Bureau of Internal Revenue (BIR) Legal and Inspection Group, acting on the opinion of the Department of Energy (DOE) that CCG and LCCG were raw materials or blending components in the production or processing of gasoline in its finished form, ascertained that imported CCG and LCCG were not subject to excise tax under the National Internal Revenue Code (NIRC) because they were intermediate goods which were not intended for domestic sale or consumption but were instead additional components in the production of finished gasoline products which were then subject to excise tax.

Relying in good faith on these administrative actions, the Company imported from 2004 to 2009 shipments of CCG and LCCG into the Philippines with each shipment covered by the corresponding BIR Authority to Release Imported Goods (ATRIG) stating that the importation is not subject to excise tax. Upon payment of value-added tax (VAT) as assessed in the ATRIGs, the Bureau of Customs (BOC) allowed the entry of the imported CCG and LCCG without payment of excise tax.

In 2009, the District Collector of the Port of Batangas issued a letter demanding from the Company the payment of deficiency excise tax, VAT and penalties covering importation entries from 2006 to 2008. The Company requested the cancellation of the demand letter for lack of factual and legal basis. The District Collector of the Port of Batangas denied the request of the Company and declared that the law mandated the payment of excise tax on importation of unleaded gasoline and that it made no distinction or qualification on whether or not it was for consumption or sale to the domestic market. The District Collector of the Port of Batangas then reiterated his previous demand and threatened enforcement of Section 1508 of the Tariff and Customs Code of the Philippines (TCCP) which would hold the delivery or release of imported articles when an importer has an outstanding and demandable account.

The Company appealed before the Commissioner of Customs (COC). In the meantime, the Director of the DOE-Oil Industry Management Bureau issued a letter reiterating the earlier DOE finding that CCG and LCCG imports were raw materials or blending components in the production or processing of gasoline in its finished form. The then BIR Commissioner issued a memorandum confirming and reiterating the initial ruling in 2004 to the effect that CCG and LCCG are intermediate products or blending components which are not subject to excise tax under Section 148 of the NIRC.

The COC denied the appeal of the Company and demanded the payment of excise tax and VAT for the Company's CCG and LCCG importations this time from 2004 to 2009. The Company filed a motion for reconsideration of the Letter-Decision, which was denied by the COC. The COC then ordered the Company to pay the principal amount of P7.3 billion and pay the excise tax and VAT on all incoming CCG and LCCG shipments.

The Company thereafter filed a petition for review with the Court of Tax Appeals (CTA) for the purpose of appealing the ruling of the COC as well as to apply for the issuance of a temporary restraining order (TRO) to immediately prevent the COC from seizing future shipments of the Company pursuant to Section 1508 of the TCCP. The Company likewise applied for the issuance of a suspension order for the purpose of ensuring the preservation of the status quo while the merits of the appeal are being heard by the CTA.

While the case was pending in the CTA, the BIR Commissioner at that time issued on 15 December 2009 a Letter-Ruling declaring that the CCG and LCCG imports of the Company were subject to excise tax on the ground that the law did not make any distinction or qualification on whether or not the imports were intended for consumption or for blending with other substances. The ruling effectively reversed the earlier rulings of former BIR Commissioners.

Following the reversal of the ruling by the BIR Commissioner, the BOC started collecting excise taxes in January 2010 on shipments of the Company. The Company paid the BOC assessments under protest and on 27 January 2010, filed a Supplemental Petition seeking to annul the 15 December 2009 ruling by the BIR Commissioner.

In view of the paramount public interest, the government agreed not to exercise Section 1508 of the TCCP on condition that the Company posts a surety bond.

On 4 March 2010, the CTA approved the surety bond posted by the Company and enjoined the COC, the Collector of Customs at the Port of Batangas, the BOC and all persons acting under their direction or authority from undertaking any actions under Section 1508 of the TCCP and/or from all remedies to collect from petitioner the excise taxes and VAT, with increments, subject of the case.

On 27 November 2012, the CTA 3rd Division issued a Resolution granting the Company's Motion for Summary Judgment. The Court deemed that BOC's demand for the payment of excise taxes on importations of LCCG/CCG during the period 2004 to 2009 without merit, rendering the discussion on whether the CCG/LCCG are properly classified (under Section 148(e) or Section 148(f) of the NIRC, as amended) moot and academic. The CTA ruled in favor of the Company and respondent was prohibited from collecting the alleged unpaid excise taxes and VAT thereon, on the Company's importations of CCG/LCCG for the relevant periods in 2004 to 2009.

The BOC filed a Petition for Review with the CTA En Banc. Meanwhile, the Company filed its own Petition for Review with the CTA En Banc because the CTA did not invalidate the 15 December 2009 Ruling of the CIR with respect to double taxation - first, upon importation and the other upon withdrawal of the finished grade products from the refinery.

Management believes that provision should not be recognized as at 31 December 2014, 2013 and 2012 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong. This assessment is supported by the favorable CTA ruling during the year.

(b) Excise tax on Importations of Alkylate

Following the ruling of the BIR authorizing the collection of excise taxes on CCG/LCCG importations, the Company began importing Alkylate as its blending component. The COC issued Customs Memorandum Circular No. 164-2012 directing the BOC and its officers to take the "appropriate action" in relation to BIR Ruling dated 29 June 2012 (Ruling No. M-059-2012) issued by the BIR Commissioner. In the ruling dated 29 June 2012, the BIR Commissioner held that Alkylate is also subject of excise tax upon importation. The BIR Ruling further held that the Company is liable for the amount of P1.3 billion (US\$33 million) representing the unpaid taxes, on the importations of Alkylate from 2010. A Petition for Review of the BIR Ruling was filed with the CTA. On 18 September 2012, the Company filed a Motion for the Issuance of a Suspension Order to stop the implementation of Ruling No. M-059-2012.

On 22 October 2012, the CTA issued a Resolution approving the issuance of a Suspension Order stopping the collection of alleged deficiency excise taxes (and VAT) for the period from 2010 to June 2012, upon the posting by the Company of a surety bond. Said bond was duly filed and the CTA approved the same on 30 October 2012.

In a Resolution dated 28 January 2013, the CTA denied the BIR/BOC Motion to Dismiss the case. Subsequent appeals (Petitions for Certiorari) from the denial of the Motion Dismiss have been filed by the BOC and the BIR with Supreme Court (SC).

On 2 June 2014, the Company filed a Petition for Certiorari with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the SC questioning the denial of its application for the issuance of a suspension order against the assessment and collection of excise taxes on its March 2014 alkylate shipment. On 7 July 2014, the SC issued a temporary restraining order enjoining the CTA and the tax-collecting agencies of the government from imposing excise taxes on incoming alkylate importations of the Company.

Meanwhile, in the main case before the CTA, on 31 July 2014, PSPC filed a Motion for Judgment on the Pleadings. This Motion was denied by the tax court on 13 February 2015. On 16 March 2015, PSPC filed a Motion for Reconsideration from this denial of the Motion for Judgment on the Pleadings.

(c) *Other significant pending tax cases*

The Company is a defendant or respondent in cases involving tax credit certificates (TCC) and assessments for local taxes by Batangas City Government. The total amount of case pending (excluding interest and penalties) is P653 million. Management believes that the ultimate outcome of the contingencies discussed below will not have a material impact on the financial statements as of 31 December 2014, 2013 and 2012.

- (i) The Company filed two (2) separate petitions with the CTA seeking to invalidate two (2) assessments by the BIR for specific taxes (plus 25% surcharge, 50% fraud surcharge and 20% interest) previously paid by the Company through TCC acquired by the Company from their original holders, and which TCC's the BIR alleged were fraudulently issued.

In a decision dated 21 December 2007, the SC rendered a decision, that has since become final, in one of the cases declaring that the Company is an innocent transferee for value. On 30 April 2009, the second division of the CTA ruled in favor of the Company in the remaining TCC case with an aggregate amount of P235 million. On appeal, the CTA En Banc affirmed on 22 February 2011 the CTA decision, prompting the BIR Commissioner to elevate to appeal the matter before the SC.

Another collection case involving TCC's with an aggregate value of P13 million that were used by the Company in payment of taxes payable to the BOC was dismissed by the Regional Trial Court (RTC) of Manila. The COC has since appealed the same to the Court of Appeals.

- (ii) The Batangas City local tax case amounting to P338 million is now pending with the SC. On 11 August 2005, the CTA issued a resolution ordering Batangas City and any of its officers to hold in abeyance the collection of the taxes under dispute.

On 21 June 2007, the 2nd Division of the CTA rendered a decision finding the Company not liable for business taxes on the manufacture and distribution of petroleum products and further declared that the amount assessed as mayor's permit fees was excessive. The City was further precluded from imposing taxes on the manufacture and distribution of petroleum products and was ordered to refund the excessive mayor's permit fees in the amount of P3.5 million. The Company filed a Motion for Clarification to correct the computation of the amount to be refunded. The 2nd Division of the CTA issued an Amended Decision last 31 July 2007 partially granting the Company's Motion for Clarification.

The City of Batangas filed its Petition for Review with the CTA *en banc* last 20 December 2007. In a decision dated 22 January 2009, the CTA *en banc* affirmed the decision of the 2nd Division and dismissed the Petition for Review filed by the City for lack of merit. Hence, the appeal by the City of Batangas to the SC. Awaiting further action from the SC.

- (iii) Other than the tax cases filed against the Company above, there are also tax cases filed by the Company for its claims from the government that are pending as at 31 December 2014, 2013 and 2012. Management believes that the ultimate outcome of such contingencies will not have a material impact on the Company's financial statements.

(d) *Pandacan zoning ordinance*

On 28 November 2001, the City Government of Manila enacted Ordinance No. 8027 rezoning the Pandacan depot from an Industrial II to a Commercial I classification. This ordinance required the Company and two (2) other oil companies operating in Pandacan to cease and desist from operating their business within six (6) months.

In June 2006, the Manila City issued a new zoning ordinance, Ordinance No. 8119, which classifies the area of the Pandacan depot as an Overlay Planned Unit Development and required the phase out of the Pandacan oil depot within a period of 7 years. The Company and another oil company filed with the RTC of Manila, a joint complaint praying, among others for injunctive relief to stop the effectivity and implementation of Ordinance No. 8119.

On 28 April 2009, the SC denied the motion for reconsideration from its decision in the case of 'Social Justice Society, et al. vs. Honorable Jose L. Atienza Jr.,' ordering the City of Manila to enforce Ordinance No. 8027 and giving the Company, along with the two (2) other oil companies, a 90-day period to submit to the Manila Regional Trial Court of Manila, Branch 39, a comprehensive plan and relocation schedule for the transfer of the Pandacan depot out of its present site.

The Company and the two (2) other oil companies have submitted a plan which identified the criteria for determining the location for the new depot. The relocation plan is still under consideration by the RTC of Manila Branch 39.

However, on 28 May 2009, the Mayor of Manila signed his approval of Ordinance No. 8187, which repeals Ordinance No. 8027 and amends Ordinance No. 8119, allowing the continued stay of the Pandacan depot. Opponents of Ordinance No. 8187, Social Justice Society and former Mayor of Manila, et al., filed separate cases to question its validity before the SC. The Company filed its Comment-in-Intervention and Memorandum and now awaits further action by the SC.

In 2012, the City Council of Manila passed Ordinance No. 8283, which reclassifies the area where the Pandacan depot is located from being Industrial Zone into a Mixed Commercial/Residential Zone and requires the removal of the oil terminal by January 2016. The former City Mayor vetoed the Ordinance. However, the new City Mayor has publicly pronounced that he would ensure the closure of the Pandacan depot. On 29 August 2013, the Company filed a Petition for Declaratory Relief with the Regional Trial Court of Makati City to challenge the validity of Ordinance No. 8283.

On 25 November 2014, the SC decided to declare Ordinance No. 8187 unconstitutional and invalid with respect to the continuing stay of the Pandacan depots. On 5 January 2015, the Company filed its Motion for Reconsideration.

In response to the latest decision of the SC, as well as the logistical optimization required from the impact of the pipeline shutdown, the Company accelerated the depreciation of Pandacan assets in 2014. The impact of accelerating the depreciation of Pandacan assets during the year is P355 million. The total carrying amount of Pandacan assets amounted to P394 million as at 31 December 2014 (2013 - P749 million).

(e) Cases Filed by the West Tower Condominium Corporation

(i) Makati Regional Trial Court - Action for Damages

Residents of West Tower Condominium as well as various individuals and corporations who reside/located in Barangay Bangkal, Makati City filed a Complaint before the Regional Trial Court of Makati City on 24 March 2011. Aside from the Company, the complaint names the First Philippine Industrial Corporation ("FPIC"), First Gen Corporation and Chevron Philippines, Inc. and their directors as defendants, and alleges that the aforementioned companies and individuals violated Republic Act 6969 (Toxic Substances and Hazardous Wastes Control Act of 1990), Republic Act 8749 (Philippine Clean Air Act of 1999) and its Implementing Rules and Regulations), Republic Act 9275 (Philippine Clean Water Act of 2004) for which it claims damages pursuant to A.M. No. 09-6-8-SC. (Procedure on Environmental cases).

This is in connection with the leak of petroleum products from FPIC's white oil pipeline within the proximity of the West Tower Condominium Corporation. The Company avails of said pipeline's services to transport white oil products from its refinery in Tabangao, Batangas to its Pandacan terminal.

The plaintiffs allege that the oil "spill" caused by FPIC's pipeline was of such magnitude that it caused environmental damage that affected their lives health and properties. They claim that defendants are collectively and solidarily liable to pay the damages sustained by the plaintiffs resulting from the alleged willful violation by the defendants of environmental laws, rules and regulations and/or their malicious neglect or failure to exercise the extraordinary diligence and care required under the circumstances by law and jurisprudence.

The plaintiffs seek compensation of some P2.8 billion.

In its ruling dated 22 August 2011, the RTC declared the case as an ordinary action for damages instead of an environmental case. Consequently, the plaintiffs were required to pay the appropriate filing fees within 10 days from receipt of order. The plaintiffs moved for the reconsideration of the ruling. In an order dated 29 March 2012, the RTC denied the plaintiffs' motion for reconsideration. The RTC's rulings were elevated by the plaintiffs to the Court of Appeals.

The Supreme Court resolved to adopt the favorable recommendations to the Court of Appeals and ordered FPIC to submit a certification from the Secretary of the Department of Energy (DOE) that the pipeline is already safe for commercial operation. On 29 October 2013, the DOE Certification was submitted to the Supreme Court.

Management believes that provision should not be recognized as of 31 December 2014, 2013 and 2012 since it is the Company's assessment that liability arising is not probable because the Company's factual and legal positions are strong.

(ii) Department of Justice

Also in connection with the leak of petroleum products from FPIC's pipeline, West Tower Condo Corp. filed on 15 October 2011 a case of Criminal Negligence (violation of Art. 365 of the Revised Penal Code) against the eleven (11) directors of the Company.

Preliminary investigation is ongoing before the Department of Justice with the Company respondents having filed their respective counter-affidavits on 19 December 2011.

Management believes that the ultimate outcome of these contingencies will not have a material impact on the Company's financial statements, given that the Company is only a client of FPIC. Please refer to Note 4.1.c for additional information.

(f) Other litigations

In 1996, an action for damages was filed against several U.S. corporations, including Shell Oil Company, alleged to be manufacturers of pesticides containing chemicals used in plantations in Davao City.

In August 2009, a Davao City trial court issued a Notice of Garnishment of the Company's funds in a bank. The Company sought and obtained protective relief from the Court of Appeals on the basis that it was not a party to the case nor to the compromise agreement subject of the case. The Court of Appeals further ordered the judge who issued the execution and garnishment against the Company's assets to recuse himself from further presiding in the proceedings in the trial court. The SC has declared the dismissal of one of the two petitions filed for failure of petitioners to sufficiently show that the Court of Appeals committed any reversible error in the decision and resolution. The SC has not yet resolved the remaining petition but the management believes that the ultimate outcome of this contingency will not have a material impact on the Company's financial statements, given that it is similar to the previous petition which will most probably have the same outcome.

Note 29 - Deregulation Law

On 10 February 1998, RA No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Act") was signed into law. The law provides, among others, for oil refiners to list and offer at least 10% of their shares to the public within three years from the effectivity of the said law.

In a letter to the Department of Energy (DOE) dated 12 February 2001, the Department of Justice (DOJ) rendered an opinion that the 3 year period in Section 22 of RA 8479 for oil refineries to make a public offering is only directory and not mandatory. As to when it should be accomplished is subject of reasonable regulation by the DOE.

Currently, a refiner may conduct a public offering by itself taking into account "the prevailing business, economic, equity capital market, social or political circumstances and/or other conditions" or by the Secretary of Energy upon a determination that the socio-economic, political, financial, and technical data and information warrant the conduct of an Initial Public Offering (IPO), as guided by the assessment and determination of an independent financial adviser mutually acceptable to the DOE and the offeror.

The conduct of the public offering is subject to quarterly review depending on the developments of the above factors.

Note 30 - Operating segments

The Company is organized into the following operating segments:

- (a) Retail - pertains to the business of directly servicing end consumers (private and commercial motorists) via retail service stations managed by individual dealers involving the sale of petroleum fuels, lubricants and convenience store items.
- (b) Commercial - pertains to business with commercial accounts in various sectors e.g. industrial, power, manufacturing, wholesale, transport, construction, agriculture, mining, hotel and other sectors or customers.
- (c) Manufacturing and Supply - covers the manufacturing business at the Tabangao Refinery. Supply manages the crude/finished product importation and logistics requirements of manufacturing as well as the product transfers from the refinery to the distribution sites.

Geographical segmentation does not apply to the Company's business.

Financial information about business segments is presented below:

	Retail	Commercial	Manufacturing and supply	Others	Total
As at and for the year ended 31 December 2014					
Segment revenue					
Local	107,545,151	77,083,250	27,369,393	3,672	212,001,466
Export and International	-	7,474,891	4,608,468	-	12,083,359
Total	107,545,151	84,558,141	31,977,861	3,672	224,084,825
Segment assets	17,555,842	20,755,349	25,376,900	9,814,615	73,502,706
Segment liabilities	(3,980,554)	(46,399,402)	(15,425,142)	(3,866,966)	(69,672,064)
Property and equipment	5,938,123	90,638	6,307,015	6,294,953	18,630,729
Depreciation and amortization	(657,447)	(682,756)	(811,200)	(147,894)	(2,299,297)
As at and for the year ended 31 December 2013					
Segment revenue					
Local	99,175,894	68,491,130	16,257,764	2,334	183,927,122
Export and International	-	7,594,417	7,327,325	-	14,921,742
Total	99,175,894	76,085,547	23,585,089	2,334	198,848,864
Segment assets	22,682,474	25,761,355	18,285,439	12,004,109	78,733,377
Segment liabilities	(9,019,406)	(1,598,932)	(5,082,958)	(50,471,386)	(66,172,682)
Property and equipment	5,994,716	4,767,851	3,937,767	76,888	14,777,222
Depreciation and amortization	(617,154)	(310,476)	(787,023)	(168,453)	(1,883,106)
As at and for the year ended 31 December 2012					
Segment revenue					
Local	97,347,694	66,095,494	10,344,868	-	173,788,056
Export and International	-	7,894,577	7,165,013	1,064	15,060,654
Total	97,347,694	73,990,071	17,509,881	1,064	188,848,710
Segment assets	16,540,230	20,450,398	33,091,786	4,884,254	74,966,668
Segment liabilities	(5,987,797)	(4,367,579)	(15,330,245)	(35,427,794)	(61,113,415)
Property and equipment	9,200,027	1,128,965	4,221,868	16	14,550,876
Depreciation and amortization	(521,257)	(345,369)	(728,383)	(179,891)	(1,774,900)

The total sales of the manufacturing and supply segment include sales to entities under common shareholdings amounting to P7.6 billion (2013 - P8.6 billion and 2012 - P9.3 billion).

Note 31 - Supplementary information required by the Bureau of Internal Revenue

The following information required by Revenue Regulations No. 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Output value-added tax (VAT)

Output VAT declared and the revenues upon which the same was based at 31 December 2014 consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of goods	200,104,698	24,012,563
Sale of services	-	-
Sale to government	11,849,979	1,421,997
Others	-	-
	211,954,677	25,434,560
Zero-rated		
Sale of goods	26,773,855	-
Exempt		
Sale of goods	556,099	-
Total	239,284,631	25,434,560

Zero-rated sale of goods pertains to direct export sales transactions with PEZA-registered activities and international vessels pursuant to Section 108 (b) of National Internal Revenue Code.

VAT exempt sales pertain to transactions with exempt entities such as Shell Philippines Exploration B.V., Adlaon Energy Development Corporation, British Embassy, Embassy of Malaysia, Embassy of the Czech Republic, Embassy of the Russian, Food and Agriculture, Intl Labour Organization, New Zealand Embassy, Pasar Employees Multi Purpose, Posco Philippine Manila, Royal Netherlands Embassy, San Beda College, South African Embassy, Top amusement Technology Intl, United Nations Children Fund, United Nations Devt Programme and United Nations Population Fund, which are exempt pursuant to Section 109 of National Internal Revenue Code.

(ii) Input VAT

Movements in input VAT for the year ended 31 December 2014 follow:

Beginning balance	6,618,428
Add: Current year's domestic purchases/payments for:	
Importation of goods for resale or manufacture	19,433,652
Domestic goods for resale or manufacture	5,155,716
Services lodged under other accounts	1,561,804
Services rendered by non-residents	81,021
Capital goods subject to amortization	1,394
Capital goods not subject to amortization	-
Other adjustments	592,499
Deduct: Claims for tax credit/refund	-
Total input VAT	33,444,514

(iii) Importations

The total landed cost of imports and the amount of custom duties and tariff fees accrued and paid for the year ended 31 December 2014 follow:

Landed cost of imports	161,947,104
Customs duties and tariff fees paid	2,456,556

(iv) Documentary stamp tax

Documentary stamp taxes in relation to the Company's borrowing transactions were expensed and settled by the local bank. The related balances amounting to P165.8 million were reimbursed by the Company as part of bank service fee.

(v) Excise tax

Excise taxes relate to purchase of petroleum and mineral products by the Company. These taxes are normally paid in advance by the Company and charged to cost of sales upon sale of goods. Total amount paid and charged to operations for the year ended 31 December 2014 are as follows:

	Paid	Charge	Balance
Petroleum products	4,393,923	4,230,671	8,624,594
Mineral products	20,482	17,892	38,374
	4,414,405	4,248,563	8,662,968

(vi) All other local and national taxes

All other local and national taxes accrued and paid for the year ended 31 December 2014 consist of:

Real property taxes	185,718
Municipal taxes/Mayor's permit	37,667
Community tax	7,035
	230,420

The above local and national taxes are lodged under miscellaneous account in selling, general and administrative expense.

(vii) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended 31 December 2014 consist of:

	Paid	Accrued	Total
Withholding tax on compensation	454,236	30,631	484,867
Expanded withholding tax	691,731	91,896	783,627
Fringe benefit tax	11,163	2,212	13,375
Final withholding tax	65,385	5	65,390
	1,222,515	124,744	1,347,259

Creditable withholding tax for 2014 is P878 million, which represents balance supported with creditable withholding tax certificates as at 13 January 2015.

(viii) Tax assessments/cases

The Company's taxable year 2010 is currently under audit by the BIR. Taxable year 2011 is still open while a Letter of Authority was received for taxable year 2013.

Pilipinas Shell Petroleum Corporation

Schedule A - Financial Assets

As at 31 December 2014

(All amounts in thousand Philippine Peso)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Available-for-sale financial assets				
Alabang Country Club, Inc.	2	4,600	4,600	-
Apo Golf & Country Club, Inc.	1	3	3	-
Architectural Centre Club, Inc.	1	17	17	-
Atlas Mining	3,000,000	30,600	30,600	-
Batulao Golf & Mountain Resorts, Inc.	2	46	46	-
Batulao Village Club, Inc.	1	45	45	-
Canlubang Golf and Country Club, Inc.	2	1,500	1,500	-
Club Filipino	1	35	35	-
Club Filipino de Cebu, Inc.	24	700	700	-
Executive Suite Cebu, Inc.	5	30	30	-
Green Valley Country Club	1	8	8	-
Green Valley Country Club of Baguio	1	12	12	-
Ladislawa Country Club	1	40	40	-
Makati (Sports) Club, Inc.	3	600	600	-
Manila Golf & Country Club, Inc.	6	173,972	173,972	-
Manila Polo Club, Inc.	3	23,000	23,000	-
Manila Southwoods Golf & Country Club	1	400	400	-
Mimosa Golf & Country Club	1	400	400	-
Negros Occidental Golf & Country Club	1	20	20	-
Palicpican Sports & Beach Club, Inc.	1	75	75	-
Pantranco South Express Inc.	5,232,000	3,738	3,738	-
Philippine Columbian Association	1	45	45	-
Philippine Village Resort, Inc.	1,000	10	10	-
Puerto Azul Beach & Country Club, Inc.	1	40	40	-
Sta. Elena Golf Club, Inc.	2	6,000	6,000	-
The Royal Northwoods Golf Club & Country Club, Inc.	1	1,000	1,000	-
Tower Club, Inc.	1	300	300	-
Valle Verde Country Club, Inc.	1	300	300	-
Valley Golf Club, Inc.	2	170	170	-
Wack Wack Golf & Country Club, Inc.	1	14,500	14,500	-
Total available-for-sale financial assets		262,206	262,206	
Cash			4,721,647	
Receivables			10,229,547	
Loans to TRI, a related party			379,678	
Market investment loans			83,817	
Long-term receivables			44,868	
Total Financial Assets			15,721,763	

Pilipinas Shell Petroleum Corporation

**Schedule B - Amounts Receivable from Directors, Officers,
Employees, Related Parties and Principal Stockholders
(Other than Related Parties)**

As at 31 December 2014

Name of employee	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Not Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The Company's receivables from directors, officers, employees, and principal stockholders are limited to receivables subject to usual terms for ordinary expense advances and items arising in the ordinary course of business.

Pilipinas Shell Petroleum Corporation

Schedule C - Amounts Receivable from Related Parties
which are eliminated during the Consolidation Of Financial Statements

As at 31 December 2014

(All amounts in thousand Philippine Peso)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written- off	Current	Not Current	Balance at end of period
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Pilipinas Shell Petroleum Corporation

Schedule D - Intangible Assets - Other Assets
As at 31 December 2014
(All amounts in thousand Philippine Peso)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Capitalized Software	134,326	14,914	(134,587)	-	(320)	14,333

Pilipinas Shell Petroleum Corporation

Schedule E - Long Term Debt
As at 31 December 2014
(All amounts in thousand Philippine Peso)

Title of issue and Type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term Debt" in related balance sheet
Bank loan	23,000,000	11,000,000	12,000,000

Pilipinas Shell Petroleum Corporation

**Schedule F - Indebtedness to Related Parties
(Long-Term Loans from Related Companies)
As at 31 December 2014**

Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

Pilipinas Shell Petroleum Corporation

Schedule G - Guarantees of Securities of Other Issuers
As at 31 December 2014

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

Pilipinas Shell Petroleum Corporation

**Schedule H - Capital Stock
As at 31 December 2014**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common stocks	1,000,000,000	691,271,425	-	463,988,998	51	227,282,376

Pilipinas Shell Petroleum Corporation

Reconciliation of Retained Earnings for Dividend Declaration
As at 31 December 2014
(All amounts in thousand Philippine Peso)

Items	Amount
Unappropriated Retained Earnings, beginning	4,524,373
Adjustments:	
Dividend declaration during the year	-
Treasury shares	(507,106)
Unappropriated Retained Earnings, as adjusted, beginning	4,017,267
Net Income (loss) based on the face of AFS	(8,488,580)
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-
Unrealized actuarial gain	(220,595)
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net Income Actual/Realized	(8,709,175)
Unappropriated Retained Earnings, as adjusted, ending*	(4,691,908)

**P1.1 billion retained earnings of Pilipinas Shell Petroleum Corporation from 1999 merger is only available for stock dividend.*

Pilipinas Shell Petroleum Corporation

Schedule of Philippine Financial Reporting Standards
Effective Standards and Interpretations as at 31 December 2014

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

		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9*		✓	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9*		✓	
	Amendment to PFRS 9, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition*		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, 12 and PAS 27: Consolidation for investment entities			✓
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture*		✓	
	Amendments regarding the application of the consolidation exception*		✓	

		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments regarding the accounting for acquisitions of an interest in a joint operation*		✓	
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments regarding the application of the consolidation exception*		✓	
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts*		✓	
PFRS 15	Revenue from Contracts with Customers*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments resulting from the disclosure initiative*		✓	
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments regarding the clarification of acceptable methods of depreciation and amortization*		✓	
	Amendments bringing bearer plants into the scope of PAS 16*		✓	
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		

		Adopted	Not Adopted	Not Applicable
PAS 19 (Amended)	Amendments to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service*		✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture*		✓	
	Amendments regarding the application of the consolidation exception*		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Financial Instruments Assets and Liability Offsetting	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓

		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of assets - Recoverable amount disclosures	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments regarding the clarification of acceptable methods of depreciation and amortization*		✓	
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Financial Instruments: Recognition and Measurement - Novation of Derivatives and Hedge Accounting			✓
	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in PAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when PFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception*			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓

		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2	✓		
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

		Adopted	Not Adopted	Not Applicable
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

The standards and interpretations marked with an asterisk (*) refer to those standards and interpretations that are effective after 1 January 2014.

The standards and interpretations that are labeled as "Not Applicable" are already effective as at December 31, 2014 but will never be relevant/applicable to the Company or are currently not relevant to the Company because it has currently no related transactions.

Pilipinas Shell Petroleum Corporation

Additional Components of Financial Statements
Schedule of Financial Soundness Indicators
As at and for the years ended 31 December 2014 and 2013

	2014	2013
Current Ratio	0.90	1.20
Debt to Equity	11.34	3.31
Debt Ratio	0.54	0.51
Return on Assets	(11.54%)	(1.16%)