PETRON

2012 Annual Report

PETRON
OPEN 24 HOURS
XTRA

Forging Ahead Thinking Big

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At the end of 2012, we have completed 54% of our $2-billion Refinery Masterplan Phase 2 or RMP-2. This game-changing initiative will increase our competitive edge and enhance the country's supply security.

We are Petron

Petron Corporation is the largest oil refining and marketing company in the Philippines. Supplying nearly 40% of the country's oil requirements, our world-class products and quality services fuel the lives of millions of Filipinos. We are dedicated and passionate about our vision to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Our Integrated Management System (IMS)-certified refinery processes crude oil into a full range of petroleum products including gasoline, diesel, liquified petroleum gas (LPG), jet fuel, kerosene, fuel oil, and petrochemical feedstocks benzene, toluene, mixed xylene, and propylene.

From the refinery, Petron move its products mainly by sea to over 30 depots and terminals situated all over the country. Through this nationwide network, we supply fuel oil, diesel, and LPG to various industrial customers. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through its more than 2,000 service stations, Petron retails gasoline, diesel, and kerosene to motorists and to the public transport sector. We also sell our LPG brands Gasul and Fiesta to households and other industrial consumers through an extensive dealership network.

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

We source our fuel additives from our blending facility at the Subic Bay Freeport. This gives us the capability to formulate unique additives to produce premium fuels.

We have partnered with major fastfood chains, and other consumer service companies to give our customers a one-stop full service experience. Petron continuously puts up additional service stations in strategic locations.

In line with our efforts to increase our presence in the regional market, we export various petroleum and non-fuel products to Asia-Pacific countries such as Japan, India, Malaysia, Singapore, South Korea, Thailand, Pakistan, and even to the United Arab Emirates.

In March 2012, we increased our regional presence as we acquired three companies in Malaysia comprising an integrated refining, distribution, and marketing business.

Our Vision and Mission

To be the leading provider of total customer solutions in the energy sector and its derivative businesses.

We will achieve this by:

- Being an integral part of our customers' lives, delivering consistent customer experience through innovative products and services;
- Developing strategic partnerships in pursuit of growth and opportunity;
- Leveraging our refining assets to achieve competitive advantage;
- Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence;
- Caring for the community and the environment;
- Conducting ourselves with professionalism, integrity, and fairness; and
- Promoting the best interest of all our stakeholders.

Message to Stockholders

FORGING AHEAD

The year 2012 was not without challenges. Despite a 6.6 % growth in the Philippine economy, global oil prices remained volatile. Political unrest in oil-producing countries fueled a surge in the benchmark Dubai crude as it peaked to $124/barrel in March. By the 2nd quarter of 2012, however, oil prices started to slide and Dubai dropped to a year low $89/barrel in June amid a weak global economy. We also saw a more competitive environment marked by "price wars" across the country, characterized by heavy discounts.

As a result of these factors, your Company posted a modest income of P2.3 billion in 2012. Sales revenues, meanwhile, jumped by 55% to P424.8 billion as we consolidated the operations of three companies in Malaysia—comprising an integrated downstream petroleum business—in the 2nd quarter of the year.

Despite the challenging business environment, we remained focused on completing our "game-changing" initiatives that will give your Company a decisive edge over the long-term. We also went beyond our comfort zone and looked for opportunities to expand in terms of portfolio and geographical reach.

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RAMON S. ANG
Chairman and Chief Executive Officer

ERIC O. RECTO
President

EXPANDING OUR HORIZONS

Petron embarked on an exciting journey in March 2012 when it assumed ownership of ExxonMobil's downstream business in Malaysia. The acquisition included the 88,000 barrel-per-day Port Dickson Refinery (PDR), 550 service stations, and 7 storage terminals. This is a significant milestone in the Company's 80-year history since this is its first major international venture.

We renamed the three acquired companies to reflect our new identity: Esso Malaysia Berhad, now known as Petron Malaysia Refining & Marketing Bhd; ExxonMobil Malaysia Sdn Bhd, now known as Petron Fuel International Sdn Bhd; and ExxonMobil Borneo Sdn Bhd, now named Petron Oil (M) Sdn Bhd.

Investing in Malaysia made perfect business sense since its economy is robust and progressive. Its per capita consumption of fuel is double that of the Philippines. Additionally, its business model is almost the same as that of Petron Philippines and we have the inherent talent and experience to run this business effectively.

Barely a year after entering the Malaysian market, we have already re-branded 125 service stations out of the 550 stations to Petron. Beyond just the visual transformation to our distinctive blue and red logo and design, our service stations in Malaysia embody the Petron experience and what our brand stands for—innovative products and personalized services, successful partnerships built on trust, and caring for our customers.

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As we duplicate the success of Petron in Malaysia, we are also looking at upgrading the Port Dickson Refinery to meet the more stringent and environment-friendly Euro-4M specifications. We are already making headway into optimizing the refinery's production streams.

While we are a relative newcomer in the market, we have been warmly received by Malaysian consumers. The number of customers at our service stations has been growing and we have secured a supply contract to fuel the needs of Malaysia Airlines' brand new Airbus 380 fleet. We also expanded our aviation fuel business to the Low Cost Carrier Terminal for the first time when we were awarded the contract to become the major fuel supplier of AirPhil Express. The trust and confidence shown by our new partners only strengthen our commitment to bring excellent fuel products and services to the market.

Indeed, we are gaining a strong foothold in our neighboring country!

ENDURING LEADERSHIP

Even while we consolidated our gains in Malaysia, we continued to increase our presence in the Philippine market. Total domestic volumes surged by nearly 8% to 44.5 million barrels fueled by an increase in sales across all major market segments—Reseller, Industrial, and LPG. This is the highest sales growth achieved by your Company in the past 5 years, even outpacing industry demand which only grew by 4% in 2012. The strong sales performance helped cement our leadership as we cornered nearly 38.5% of the total market in 2012, an increase from the previous year.

We are proud to say that Petron's market share now exceeds its two closest competitors combined!

We are also pleased to report that we have already grown our service station network to over 2,000 at the end of 2012, adding nearly 250 new stations for the year. This still forms part of our continuous network expansion program which enables us to establish our presence in underserved markets.

35%
Outlet Share

Since we started this program in 2009, we have already built over 900 new Petron service stations across the archipelago. As a result, our outlet share is now at 35% of total industry count—the most extensive among the oil players. While we see our service station expansion program as a means to further reach out to our countrymen, we also view this as a manifestation of the increasing confidence of entrepreneurs in our business and our commitment to nation-building, one service station at a time.

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BIG GOALS, GREAT OUTCOMES

Over the last three years, we have laid down the foundation for sustainable growth and profitability with major projects at our Bataan Refinery. We are pleased to report that these projects are nearing completion.

The first two units of our 140-MW power and steam generation facility are expected to be operational within the first half of 2013 and the other two units will be commissioned in time for the Refinery Masterplan Phase 2 (RMP-2) in the middle of 2014. The plant provides a more economical and efficient steam and power source for PBR and is expected to generate significant cost savings. Using the latest technologies to ensure efficient and environment-friendly operations, the power plant will supply the higher power demand of RMP-2 units once they go on-stream.

The US$2-billion RMP-2 is your Company's most ambitious and largest investment to date. This project transforms the Bataan refinery into a more efficient complex capable of producing more higher-value fuels and petrochemicals, which would have a significantly positive effect on our bottom-line. It likewise enhances our country's energy security as it allows the refinery to digest crude oil from various, even non-traditional sources. Once completed, it will make Petron the only local producer of fuels that comply with the more stringent and environment-friendly Euro-IV standard.

At the end of the year, we have made substantial progress and overall completion was at 54%. From an empty site in 2011, you will now see accelerated construction activities with various units and towers in various stages of completion. The Refinery is programmed to operate at near capacity of about 180,000 barrels-per-day upon commissioning of RMP-2.

We are on track to finish the project in the next several months and expect it to be commissioned towards the end of 2014. Once completed, this project will make the Bataan refinery one of the most modern facilities in the region. RMP-2 is truly a showcase of Filipino skill and ingenuity.

SUSTAINABILITY: OUR WAY OF LIFE

Following the prestigious Management Association of the Philippines CSR Award for 2011, your Company was again recognized in 2012 for making sustainability an integral part of its operations. We ranked No. 1 among Philippine companies and 7th among 49 Asian companies in the energy sector in the 3rd Asian Sustainability Ratings conducted by CSR Asia. This is the second time that Petron topped the ratings board, which measures key areas such as governance, social, and environmental performance. We also bagged the 5th Global CSR Award for integrating environmental excellence with economic and social success. We were also pleased to receive the 2012 Safety Milestone (SMile) Award from the Department of Labor and Employment-Bureau of Working Conditions (DOLE-BWC) for 31 depots and terminals—the first oil company to win the award for all its facilities. Moreover, six of our depots have been inducted into the SMile Hall of Fame after receiving SMile Awards for five straight years. The SMile Award is a tribute to our

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"In September 2013, your Company is going to celebrate its 80th year—eight decades of being an integral part of the Philippine economy and the Filipinos' lives. It is apt that we are celebrating this milestone at a time when we are in a period of unprecedented expansion and growth. At a time when we are pushing forward, conquering new roads, and blazing new trails."

adherence beyond compliance to stringent global standards in running our operations, resulting in safe and healthy workplaces.

Our long years of maintaining safety as a way of life, ultimately resulted to a 50-million safe man-hours without lost time incident milestone across our facilities in February of 2013. This significant achievement underscores how deeply embedded safety is in our culture. From a bigger perspective, our commitment to safety makes our operations more efficient, contributing to our bottomline and enabling us to serve our stakeholders better.

In 2012, we continued our educational support to underprivileged but highly-deserving *Tulong Aral ng Petron* students by opening a college scholarship program. Many of them are taking up courses in Engineering, Accountancy, and Business in esteemed schools across Metro Manila. Four or five years down the road, we envision them to go full-circle when they eventually graduate and join your Company.

STRONG AND PROUD AT 80

In September 2013, your Company is going to celebrate its 80th year—eight decades of being an integral part of the Philippine economy and the Filipinos' life. It is apt that we are celebrating this milestone at a time when we are in a period of unprecedented expansion and growth. At a time when we are pushing forward, conquering new roads, and blazing new trails.

Moving forward and looking at the next 80 years, we hope to continue empowering every Filipino through our programs and projects.

Innovation will continue to be our main driver of success as we formulate and roll-out new fuel products. We will continue to add to our already extensive product line which includes Turbo Diesel, XCS, and Blaze 100—the most technologically-advanced gasoline in the market. These fuels are well-known for their efficiency and performance, ensuring that every motorist get the most out of their drive. We will also continue to add more value to our stations by bringing in more food and service locators.

We are keen on completing our major projects that will not only benefit the Company but the entire country as well. We are excited to witness the completion of these projects in the next several months.

Our commitment to nation-building will never falter. We will consolidate our gains and leverage on our primary resources—people, assets, brand, and infrastructure—unlocking potential from within to further create value for our stakeholders. More importantly, we will continue to build on partnerships, old and new, while playing a vital role in economic development and social change for years to come.

As we take on this daunting task, we ask for the same trust and confidence that you have generously shown us over the last 79 years. We thank you for your unrelenting confidence and support even as we make another 80 years of history together.

Maraming salamat po!

50 million
safe man-hours

RAMON S. ANG
Chairman and Chief Executive Officer

ERIC O. RECTO
President

PETRON MALAYSIA

Petron is now in Malaysia. We are in the midst of rebranding our stations, including all other touch points. This newly-rebranded station is located in Bukit Antarabangsa, Kuala Lumpur.

PETRON
Treats
Maybank ATM
PETRON
Treats
RM2.30
Masuk

Petron in Malaysia: A New Chapter in our History

On March 30, 2012 we completed the acquisition of 65% of Esso Malaysia Berhad, a publicly-listed company, and 100% of ExxonMobil Malaysia Sdn Bhd, and ExxonMobil Borneo Sdn Bhd.

Despite the challenges of a major acquisition, we managed to have a smooth and successful change in management. There were no disruptions in our operations which include an extensive distribution and marketing network and the 88,000 barrel-per-day Port Dickson Refinery (PDR) located in Negeri Sembilan, Malaysia.

Since our takeover, we have set in motion numerous initiatives to ensure success and a strong foothold in the market. We have begun re-branding Esso and Mobil stations and transformed them to the Petron brand. Just a few months short of our first year of operations in Malaysia, we have already re-branded 125 service stations, with the rest scheduled in the next few years. The conversion included the introduction of our premium products namely **Blaze RON 95**, **Blaze RON 97**, and **DieselMax**, as well as improvement of facilities and services to replicate the "Petron experience" in Malaysia.

In fact, we have been lauded by many of our customers for our "value-added" services and are now gaining the trust of our growing customer base in Malaysia.

Besides our service stations, our other touch points have started reflecting the Petron brand. These include our Port Dickson Refinery, our seven terminals, LPG cylinders, as well as our lubricants, and even tank trucks.

Petron's world-class lubricants namely **Blaze Racing**, **Rev-X**, **2T**, **Petromate**, **GEP**, **Petrogrease**, and **Hydrotur** are already available in most of our service stations in Malaysia.

In November, we also introduced the **Petron Gasul** brand to Malaysian households.

PETRON
PETRON
Kini dibuka
DELIVERING QUALITY FUEL
SCANIA
TANK 31
STATED REFERENCE HEIGHT
16392 MM
PETRON MALAYSIA

We also established our **Treats** stores in new Petron service stations to allow our Malaysian customers the ease of a one-stop convenience when gassing up at our stations.

The success of our Retail business in Malaysia is anchored on the sustained support of our loyal dealers. In appreciation of their trust, we held the very first Petron Malaysia Service Station of the Year Awards in Manila, participated in by more than 100 top-performing dealers who were recognized for exceeding their targets, adhering to the highest operating standards, and delivering excellent customer service.

Having long-term prospects in Malaysia, we are looking at upgrading PDR through

Treats
WNE 9190

optimization plans that will enable it to further increase its efficiency and long-term viability. We are also working to comply with the more stringent Euro-4M fuel standard by 2015 as required by a government mandate.

These early milestones bear testimony to the strength and capability of our company to steer this initial venture in Malaysia into a rewarding prospect for the future. We are proud to be part of this market and we are confident that we can make history here in Malaysia as we have in the Philippines.

PETRON
Aviation
JET A-1
PETRON
Aviation
WDT 2.9 M
HGT 2.3 M
LGH 7.7 M

PETRON BATAAN REFINERY

The 180,000 barrel-per-day Petron Bataan Refinery marked 2012 with important milestones, as major projects, namely the Refinery Solid Fuel-Fired Boiler and the Refinery Master Plan Phase-2 Project or RMP-2, made significant progress.

Countdown to the Refinery of the Future

Petron Bataan Refinery (PBR) continued to achieve operational and safety milestones in 2012, highlighted by significant progress in two major projects—the completion of Units 1 and 2 of the Refinery Solid Fuel-Fired Boiler (RSFFB) and the on-going construction of the Refinery Master Plan Phase-2 Project or RMP-2.

At the end of 2012, RMP-2 was 54% complete with target completion in mid-2014 and commissioning a few months after. Last year's construction activities were marked by the completion of the 98-meter tall Propane/Propylene Splitter Tower—now the tallest structure at PBR. This centerpiece project will improve the economics of PBR, allowing it to process heavier crudes which are cheaper; convert low-value fuel oil components to high-value products (e.g. gasoline, diesel); produce high-quality products that will meet Euro-IV specifications; and enable full refinery capacity utilization.

We also marked the initial firing of Unit 1 of the RSFFB. Once fully operational, the power plant will have a total of four generators capable of producing 140-MW of power and 800 metric tons per hour of steam. Additionally, excess power generated from this facility can be sent to the grid, thus adding a new revenue stream for the Company.

For the 4th straight year, PBR sustained its Integrated Management System (IMS) certification, underscoring its adherence to international standards in the areas of process quality, environment, and health and safety.

Operational availability stood at 98.7% while processing efficiency hit 99.8%. Operational availability is the readiness of the Refinery for operations indicating the reliability of the facility. Processing efficiency, meanwhile, measures the performance of the facility in terms of producing high-value products while minimizing wastage from operations.

Meanwhile, PBR continued to complement the business of Philippine Polypropylene, Inc. (PPI). PPI, an affiliate of Petron, operates a facility that converts the propylene production from PBR into high-margin polypropylene resin. In 2012, PPI started introducing its high-valued resins such as BOPP (Biaxially-Oriented PP), CPP (Cast PP), and IPP (Inflated PP) to Asian countries to gain acceptance and recognition in the regional market in preparation for the increase in propylene production capacity of PBR after RMP-2.

The years ahead are going to be more exciting at the PBR, as we slowly reap the benefits of our major investments. All these we have put in place to provide the nation with a more sustainable fuel supply.

SAFETY FIRST

Meeting Customers' Demands and More

We continued to implement modernization programs to further improve our extensive supply chain. In 2012, major programs such as the Tank Truck Modernization Program, the Inventory-Driven Delivery System (IDDS), and the In-Vehicle Management System (IVMS) were continuously implemented.

Under IVMS, close to 440 of our 700 contracted fleet tank trucks are now equipped with Global Positioning System (GPS) technology. This enables us to track and

monitor our deliveries on a real-time basis. It was also during the year when we saw the rapid implementation of our IDDS, a program that allows optimum utilization of tank truck capacity. As of end 2012, close to 400 accounts and/or service stations were already enrolled under the system, which made our deliveries more efficient, ultimately benefiting our customers.

To complement improvements in our systems, we continued our Tank Truck Modernization Program. With a younger and more reliable fleet, we are able to improve the safety, product integrity, and delivery reliability of our tank trucks. This also cuts on travel time and optimizes fuel consumption.

Our contracted marine vessels, that carry our fuels from PBR to various points in the country, also undergo thorough inspections to ensure that they are safe against oil spills and other accidents whether docked or underway. In 2012, we started developing a software called “eINSPECT.” The system will allow us to verify if the marine vessels we intend to utilize have been inspected and are suitable for use. This will allow faster turnaround times and will help gather essential data from all vessels.

The reliability of our supply chain is also anchored on our strict adherence to international safety and environmental standards.

This year, all our 31 depots and terminals were awarded by the DOLE-Bureau of Working Conditions with the Safety Milestone (SMile) Award for achievements in 2011. Six of our depots, namely, Poro, Mactan, Davao, Rosario, Tacloban, and Iloilo now rank among DOLE’s Safety Hall of Famers for achieving five consecutive years of compliance with occupational health and safety standards.

Moreover, another five facilities were certified under the IMS, ensuring that our personnel are guided in maintaining the quality, safe handling, and delivery of our products to customers. Twenty-three or 72% of Petron’s depots and terminals are now IMS-certified and the rest will be certified in early 2013. Meanwhile, 17 of our depots with pier facilities were given the International Ship and Port Facility Security (ISPS) Code by the Department of Transportation and Communications (DOTC).

Underscoring these operational achievements, our facilities reached 50 million man-hours without lost-time incidents in early 2013—a new milestone.

Our constant training and equipment upgrades for emergency response were put to the test last year when we responded to fire incidents near our facilities. Our Jimenez depot sent the facility’s fire brigade to help residents extinguish a fire that destroyed nine homes. In Zamboanga, emergency response personnel put out a fire, saving lives and property in the process.

Unprecedented Market Presence

In 2012, our service stations breached the 2,000 mark as we built nearly 250 more stations. Our retail network is, by far, the most extensive and largest in the industry. We expect this to grow as we continue to aggressively expand our network. Our expansion program has helped the Company remain the undisputed leader in this highly-competitive segment with 34.5% of the market.

Even as we roll-out new stations, we also improved our existing ones. Various engineering and maintenance projects were done in dozens of our stations, including retro-fitting and upgrading of facilities, such as new fiberglass underground tanks, dispensing pumps, and restrooms. Improvements were also done to further secure our stations. In 2012, we began rolling out new CCTV cameras at pilot stations in Metro Manila. Soon, all our stations will be installed with security cameras for the safety and protection of our customers as well as our service station personnel.

Meanwhile, to ensure sufficient supply of fuel at our stations, we continued to deploy Point-of-Sale (POS) Terminals to hundreds of stations. As of end-2012, about 600 of our service stations were already automated, making it easier for our dealers to conduct inventory control monitoring, produce immediate sales information, process sales transactions faster, and ultimately, improve customer service.

Our leadership position in Reseller Trade was complemented by our Card Solutions led by the **Petron Value Card (PVC)**. PVC now has more than 500,000 cardholders from just nearly 6,000 in 2011 when it was first launched. PVC, a one-of-a-kind rewards program, allows its users to save on cash by paying through reward points. Apart from earned points, PVC also gives its cardholders discounts on products such as **Gasul**, Petron lubricants, and San Miguel products available at San Mig Food Ave stores. It also offers free towing and roadside assistance and value-added rewards from partner establishments.

Users of our **Petron Fleet Card**—the first fleet card in the country powered by a microchip—increased by nearly 11% from 2011. Likewise, our **Petron-BPI MasterCard** cardholders increased by 6% in 2012 from the previous year as more motorists availed of rebates and the unique 24-hour price protection feature.

Our marketing initiatives such as ***Lakbay Alalay*** and **Vision Petron** continue to drive awareness for our brand and our advocacies. *Lakbay Alalay*, the longest-running roadside motorist assistance program, now runs from March until May and covers not only expressways but also main thoroughfares nationwide. Vision Petron Collaterals, a set of printed materials that accompany every Vision Petron National Student Art Competition, earned us a Hall of Fame Award in the recently concluded 48th Anvil Awards of the Public Relations Society of the Philippines (PRSP).

As a result of these, Petron was named Marketing Company of the Year by the Philippine Marketing Association (PMA) during the 2012 Agora Awards. An Agora Award is a symbol of unparalleled marketing excellence in the Philippines for exemplifying the values of diligence, versatility, and innovativeness in an ever-changing business landscape. Petron was recognized for reflecting these values in its products, services, and core marketing campaigns such as those for **Petron Blaze 100** gasoline, PVC, and *Lakbay Alalay*.

In Industrial-Civil trade, the continued trust and preference of our customers as well as our aggressive search for competitive and new business accounts enabled us to hike our sales volume by 7% in 2012. We also maintained our leadership in the aviation sector, capturing 54.3% of the market. Overall, our share in the trade remained a commanding 40.3%.

Our LPG business meanwhile continued to flourish with the increased number of households that trust the Gasul and **Fiesta Gas** brands for their quality, availability, and safety. This growth was spurred with the opening of close to 100 additional branch stores, more than 500 exclusive retail outlets, and more than five mini-refilling plants. Our market share stood at nearly 42% at the end of the year.

It was also a good year for our Lube Trade as we saw an 11% increase in sales volumes.

Our presence was further strengthened by the establishment of three new Petron Car Care Centers and the acquisition of additional accounts from government and private corporations.

We were able to obtain certifications for our world-class lubricants from Original Equipment Manufacturers or OEMs. Our **Rev-X All Terrain** synthetic engine oil, for instance, was certified by the American Petroleum Institute (API), passing the highest quality specifications for heavy duty diesel engine oils. Mercedes Benz approved the use of Rev-X All Terrain for its vehicles while Cummins, a manufacturer of heavy duty diesel engines, certified it as well. **Rev-X Trekker** was also given a certification by MTU (Germany), a leading manufacturer of large diesel engines for marine vessels, and agricultural and military vehicles. Our **Ultron Touring** engine oil for gasoline engines passed the API SM specification.

We closed 2012 with 37.5% of the total Lubes market.

By increasing our market presence, we assure all our customers that our top-of-the-line products and services are always within reach. We pride ourselves on being there whenever and wherever we are needed by our customers.

Our Strength Within

While we made significant investments in infrastructure and equipment, we also made significant investments in our people and our processes. This year, we welcomed almost 460 employees into the Petron family, mostly deployed to our fast-expanding Bataan Refinery, to complement our dynamic growth.

We also continued to enhance the talents and skills of our current workforce through training programs that enrich their competencies and develop their capabilities, making them more attuned to the needs of the organization and the times. We do this through developmental interventions on skills management and lifelong learning, as well as training programs that focus on leadership and management development.

To ensure organizational readiness for the vast potential on corporate growth, we also rationalized our business processes. For instance, in procurement, we made significant strides to source alternative materials, develop back-up vendors, introduce more competition, and work for more long-term supply contracts. Through more streamlined processes and negotiations, we were able to realize significant cost savings for the Company.

We also continued with the development of our three major e-Procurement projects, namely: SAP SRM Analytics, Logistics Information Access, and Vendor Portal to make our processes more effective and efficient. The launching of these projects is targeted for the first quarter of 2013.
As part of our efforts to fund our expansion projects in the most cost-effective way, we signed a US$485-million term facility last October 2012.

We were also successful in raising funds for the acquisition of ExxonMobil's downstream business in Malaysia. The positive response and trust from the investment community underscores the long-term prospects of the Company.

Building a Strong Nation through Sustainability

2012 was another banner year in terms of our triple-bottomline performance.

Our continued network expansion helped fuel the national economy through more employment opportunities and increased economic activity. This ensured the availability of Petron's quality products and services even in the most remote areas of the country. Our Micro-Filling Stations continued to provide a viable investment opportunity for Filipino entrepreneurs.

We also reaped the rewards of our efforts to measure and manage our environmental performance. We reduced our Greenhouse Gas emissions by 17% from 2011, mainly due to our Flare Gas Recovery Unit (FGRU) Project at PBR. The FGRU re-directs waste gases back to the refinery to be used as fuel gas for its operations.

On waste water management, our overall water consumption was reduced by over 8% from 4.79 million cubic meters in 2011 to 4.39 million cubic meters in 2012. This was achieved with our increased use of recycled water.

For the year, the entire organization together with over 6,000 volunteers planted 46,000 mangrove propagules and seedlings. Fifty thousand kilos of debris were collected, thus clearing 330 kilometers of coastline.

Beyond our operations, we marked the 2nd year of the Boracay Beach Management Program (BBMP). To commemorate this, we signed a Memorandum of Agreement with the Department of Environment and Natural Resources and the Municipality of Malay to reforest and rehabilitate 20 hectares of the Nabaoy Watershed for the next three years. This further expands our efforts to conservation through our participation in the government's National Greening Program and Adopt-an-Estero Program. As of the end of 2012, Petron is helping manage watershed areas and bodies of water in Agusan del Norte, Aklan, Davao City, Iligan City, Iloilo, Legazpi City, Marikina City, Palawan, and Pampanga.

We continued to work hand-in-hand with government and other stakeholders to promote a strong culture of safety and disaster preparedness among Filipinos, the same values that we faithfully adhere to in our operations.

We partnered with the local government of Marikina to implement the Noah's Ark Project in Barangay Nangka, one of the city's most flood-prone *barangays*. Noah's Ark is a program spearheaded by the Corporate Network for Disaster Response which aims to build disaster-resilient communities with zero casualties through risk assessment, community preparedness, and the production of the disaster risk management manual.

PETRON
EARTH DAY

We likewise signed an agreement with the Department of Science and Technology (DOST) in October 2012 to join the multi-billion peso "Nationwide Operational Assessment of Hazards" or Project NOAH. Project NOAH provides Filipinos real-time access to weather information, allowing them to better prepare against natural calamities. With our participation, Petron service stations will serve as local information centers for motorists. Selected Petron stations, depots, and terminals all over the country will be installed with automated weather systems in support of the project.

These two projects are offshoots of our ***Sagip Alalay*** program that helps our countrymen during natural calamities. Through this program, we are able to mobilize the manpower and resources to assist victims of strong typhoons and monsoon rains. In August 2012, we responded immediately to the aftermath of Typhoon Gener and conducted relief operations, some in conjunction with San Miguel Foundation, in Metro Manila, Bataan, Bulacan, and Rizal. We were able to mobilize over 300 of our employees as volunteers to help conduct relief operations in 48 different locations, benefitting nearly 12,000 victims. In December, we were able to help 28,000 Typhoon Pablo victims in Davao Oriental and Compostela Valley.

PETRON
Adopt-An-Estero/River Prog
MARIKINA RIVER
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FUEL H.O.P.E. (Helping the Filipino children and youth Overcome Poverty through Education) continued to be central in our endeavors. Our ***Tulong Aral ng Petron*** program has already come full circle with our decision to extend college scholarships to selected *Tulong Aral* high school scholars. In the school year 2012-2013, 24 of our high school scholars were able to enroll in engineering and other business-related courses. We hope to have them one day as our employees. At the end of the year, the program covered 3,900 scholars from grade school to college.

This year's ***Tsuper Dunong*** sent 85 members and dependents of the Federation of Jeepney Operators and Drivers Association of the Philippines (FEJODAP) to technical-vocational skill trainings. Of the total, 25 have already completed their courses. By 2013, 115 more will undergo the training to complete the 200 FEJODAP members who are entitled to receive training from the Technical Education and Skills Development Authority (TESDA).

All these efforts did not go unnoticed. Last June, we bagged for the second time the top spot in the roster of Philippine companies in the 3rd Asian Sustainability Ratings (ASR) conducted by CSR Asia. We also ranked 7th among 49 Asian companies in the energy sector. The ASR measures a company's performance in key areas such as environment, social, and governance.

We take our leadership beyond just market share and network coverage. Our continuous initiatives to promote education, entrepreneurship, and environmental sustainability are proof of our commitment to also take the lead in building our nation.

Board of Directors

RAMON S. ANG, Filipino, 59 years old, has served as the Chairman, Chief Executive Officer, and Director of the Company since January 8, 2009. He is also the Chairman of the Company's Executive Committee and Compensation Committee. He holds the following positions, among others: Chairman of PMRMB, LLCDC, NVRC, Petron Freeport Corporation ("PFC"), and SRC; Chairman and Chief Executive Officer of PMC; Chairman and President of Mariveles Landco Corporation, PAHL, PPI, and Robinson International Holdings Ltd.; Director of PFI Malaysia, Petron Oil (M) Sdn Bhd (formerly known as ExxonMobil Borneo Sdn Bhd) ("POM"), Petron Oil & Gas Mauritius Ltd., and Petron Oil & Gas International Sdn Bhd.; Vice Chairman, President and Chief Operating Officer of SMC; Vice Chairman of Manila Electric Company ("MERALCO"); Chairman of San Miguel Brewery Inc., San Miguel Foods, Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, South Luzon Tollway Corporation, Eastern Telecommunications Philippines Inc., Liberty Telecoms Holdings, Inc., and Philippine Diamond Hotel & Resort Inc.; Chairman and Chief Executive Officer of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Properties, Inc., Bell Telecommunication Philippines, Inc., Atea Tierra Corporation, Cyber Bay Corporation, and Philippine Oriental Realty Development Inc.; Vice Chairman of Ginebra San Miguel, Inc. ("GSMI") and San Miguel Pure Foods Company, Inc. ("Purefoods"); Director of other subsidiaries and affiliates of the San Miguel Group of Companies in the Philippines and the Southeast Asia Region; and an Independent Director of Philweb Corporation ("Philweb").

ERIC O. RECTO, Filipino, 49 years old, is the Vice Chairman of the Company since February 19, 2013. He has served the Company as Director since July 31, 2008 and was President of the Company from October 7, 2008 until February 19, 2013. He is also a member of the Company's Executive Committee, Nomination Committee, and Compensation Committee. He holds the following positions, among others: Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman of Petrogen and Overseas Ventures Insurance Corporation (Bermuda); Director of PMRMB, Petron Oil & Gas Mauritius Ltd., Petron Oil & Gas International Sdn Bhd, and PMC; Director of MERALCO and SMC; Vice Chairman of Philweb, Atok-Big Wedge Corporation ("ATOK"), Alphaland Corporation ("Alphaland") and Philippine Bank of Communications ("PBCom"); and President of ISM Communications Corporation ("ISM"), Top Frontier Investment Holdings Inc., and Q-Tech Alliance Holdings, Inc. Mr. Recto was formerly the Undersecretary of the Philippine Department of Finance, in charge of both the International Finance Group and the Privatization Office from 2002 to 2005. He also served as the Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000).

EDUARDO M. COJUANGCO, JR., Filipino, 77 years old, has served as a Director of the Company since January 8, 2009. He holds the following positions, among others: Chairman and Chief Executive Officer of SMC and GSMI; Chairman of ECJ & Sons Agricultural Enterprises Inc., Eduardo Cojuangco Jr. Foundation Inc., and Purefoods; and Director of Caiñaman Farms Inc. Mr. Cojuangco was formerly a member of the Philippine House of Representatives (1970-1972), Governor of Tarlac Province (1967-1979), and Philippine Ambassador Plenipotentiary. He also served as the President and Chief Executive Officer of United Coconut Planters Bank, President and Director of United Coconut Life Assurance Corporation, and Governor of the Development Bank of the Philippines.

ESTELITO P. MENDOZA, Filipino, 83 years old, has served as a Director of the Company since January 8, 2009. He is also a member of the Nomination Committee and Audit Committee. He holds the following positions, among others: Head of Estelito P. Mendoza and Associates; and Director of SMC, MERALCO, Philippine National Bank, and PAL. Mr. Mendoza was formerly the Philippine Solicitor General (1972-1986), Philippine Minister of Justice (1984-1986), Member of the Philippine Batasang Pambansa (1984-1986), and Governor of Pampanga Province (1980-1986). He also served as the Chairman of Dutch Boy Philippines, Inc., Alcorn Petroleum and Minerals Corporation, the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations, and the Strengthening of the Role of the Organization, and a Director of East West Bank. He has also been a Professional Lecturer of law at the University of the Philippines.

ROBERTO V. ONGPIN, Filipino, 76 years old, has served as a Director of the Company since July 31, 2008. He holds the following positions, among others: Chairman of Philweb, ISM, Alphaland and ATOK; Director of SMC, GSMI, Shangri-la Asia Limited (Hong Kong) and Forum Energy plc (London); Deputy Chairman of South China Morning Post (Hong Kong); and Chairman of Acentic GmbH (Germany). Mr. Ongpin was formerly the Philippine Minister of Trade and Industry (1979-1986). He also served as Chairman and Managing Partner of SGV & Co. (1970-1979).

BERNARDINO R. ABES, Filipino, 82 years old, has served as a Director of the Company since July 31, 2001. He was formerly the Philippine Presidential Adviser on Legislative Affairs and Head of the Presidential Legislative Liaison Office in 2001, Consultant to the Philippine Senate (1992-1993), Director of the Philippine Bureau of Labor Relations (1957-1961), Secretary of the Philippine Department of Labor (1962-1964), and Administrator and Chairman of the Philippine Social Security System (1963-1965) and Philippine Government Service Insurance System. He also served as a Director of MERALCO, PSE, Union Bank of the Philippines, First Philippine Holdings, Philex Mining Corporation, Belle Corporation, and Clark Development Corporation.

RON W. HADDOCK, American, 72 years old, has served as a Director of the Company since December 2, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of AEI Services, L.L.C.; Chairman of Safety-Kleen Systems and Rubicon Offshore International; and member of the boards of Alon Energy USA and Trinity Industries, Inc. He is also the Chairman of the governance committees for Safety-Kleen and AEI Services, LLC. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman and Chief Executive Officer of Prisma Energy International and FINA, and held various management positions in Exxon including: Manager of Baytown Refinery; Corporate Planning Manager; Vice President for Refining; Executive Assistant to the Chairman; and Vice President and Director of Esso Eastern, Inc.

AURORA T. CALDERON, Filipino, 58 years old, has served as a Director of the Company since August 13, 2010. She is a member of the Audit Committee and the Compensation Committee. She holds the following positions, among others: Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of SMC; Director of Petron Refining & Marketing Bhd (formerly known as Esso Malaysia Berhad), Petron Oil & Gas Mauritius Ltd., Petron Oil & Gas International Sdn Bhd, PMC, PFC, SRC, NVRC, LLCDC, Thai San Miguel Liquor Co., Ltd., SMC Global Power Holdings

Corp., Rapid Thoroughfares Inc., Trans Aire Development Holdings Corp., Vega Telecom, Inc., Bell Telecommunications Company, Inc., A.G.N. Philippines, Inc., and various subsidiaries of SMC; and Treasurer of Top Frontier Investment Holdings Inc. She has served as a Director of MERALCO (January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998), and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989).

MIRZAN MAHATHIR, Malaysian, 54 years old, has served as a Director of the Company since August 13, 2010. Among other positions, he is currently the Chairman and Chief Executive Officer of Crescent Capital Sdn Bhd. He holds directorships in several public companies in South East Asia and the United States. He also serves as President of the Asian Strategy & Leadership Institute, Chairman of several charitable foundations, and a member of the Wharton Business School Asian Executive Board and the Business Advisory Council of United Nations ESCAP. He was formerly the Executive Chairman and President of Konsortium Logistik Berhad (1992-2007), Executive Chairman of Sabit Sdn Bhd (1990-1992), Associate of Salomon Brothers in New York, U.S.A. (1986-1990), and Systems Engineer at IBM World Trade Corporation (1982-1985).

MA. ROMELA M. BENGZON, Filipino, 52 years old, has served as a Director of the Company since August 13, 2010. She holds the following positions, among others: Director of PMC; Managing Partner of the Bengzon Law Firm; and professor at the De La Salle University Graduate School of Business, Far Eastern University Institute of Law MBA-JD Program, the Ateneo Graduate School of Business, and Regis University. She was formerly a Trade Ambassador to the Philippine government's Honorary Investment and Trade Representative to the European Union, and Chairperson of the Committee on Economic Liberalization and Deputy Secretary General of the Consultative Commission, both under the Philippine Office of the President.

FERDINAND K. CONSTANTINO, Filipino, 61 years old, has served as a Director of the Company since August 13, 2010. He holds the following positions, among others: Senior Vice President and Chief Finance Officer and Treasurer of SMC; Director of SMC, San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, Magnolia Inc., SMC Global Power Holdings Corp.; and President of Anchor Insurance Brokerage Corporation. He has held directorships in various subsidiaries of SMC, local and offshore, during the last five years. Mr. Constantino has served as the Chief Finance Officer of MERALCO (2009), San Miguel Brewery Inc. (2007-March 2009), and San Miguel Beer Division (1999-2005); Senior Vice President and Comptroller of SMC (1997-1999); Senior Vice President and Finance Director of San Miguel Brewing Group (1994-1997); Manager of SMC's Finance Systems Department (1987-1992); Senior Assistant Vice President and Manager of SMC Budget Department (1980-1991); and Head of SMC's Corporate Planning-External Analysis Group (1976-1979).

VIRGILIO S. JACINTO, Filipino, 56 years old, has served as a Director of the Company since August 13, 2010. He holds the following positions, among others: Corporate Secretary, Compliance Officer, Senior Vice President, and General Counsel of SMC; Director of San Miguel Brewery Inc. and SMC Global Power Holdings Corp.; Corporate Secretary of GSMI, Top Frontier Investment Holdings Inc., and other subsidiaries and affiliates of SMC; Director of various other local and offshore subsidiaries of SMC; and an Associate Professor of the University of the Philippines College of Law. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank (September 1998-February 2001), a Partner of the Villareal Law Offices (June 1985-May 1993), Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985), and Graduate Assistant at the UP Law Center (1978-1981).

NELLY F. VILLAFUERTE, Filipino, 76 years old, has served as a Director of the Company since December 1, 2011. She is a columnist for the Manila Bulletin and was a former Member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2005 until July 2011. She is an author of business handbooks on microfinance, credit card transactions, exporting, and cyberspace. She is currently preparing a four volume series on the laws on banking and financial intermediaries (Philippines). Ms. Villafuerte has served as Governor of the Board of Investments (1998-2005), Undersecretary for the International Sector (Trade Promotion and Marketing Group) of the Philippine Department of Trade and Industry ("DTI") (July 1998-May 2000), and Undersecretary for the Regional Operations Group of the DTI (May 2000-2005).

REYNALDO G. DAVID, Filipino, 70 years old, has served as an Independent Director of the Company since May 12, 2009. He is the Chairman of the Audit Committee and Nomination Committee and a member of the Compensation Committee. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. Other past positions include: Chairman of LGU Guarantee Corporation, Vice Chairman, Chief Executive Officer, and Executive Committee Chairman of Export and Industry Bank (September 1997-September 2004), Director and Chief Executive Officer of Unicorp Finance Limited and Consultant of PT United City Bank (concurrently held from 1993-1997), Director of Megalink Inc., Vice President and FX Manager of the Bank of Hawaii (April 1984-August 1986), various directorships and/or executive positions with The Pratt Group (September 1986-December 1992), President and Chief Operating Officer of Producers Bank of the Philippines (October 1982-November 1983), President and Chief Operation Officer of International Corporation Bank (March 1979-September 1982), and Vice President and Treasurer of Citibank N. A. (November 1964-February 1979).

ARTEMIO V. PANGANIBAN, Filipino, 76 years old, has served as an Independent Director of the Company since October 21, 2010. He is a member of the Audit Committee. He holds the following positions, among others: Independent Director of MERALCO, Bank of the Philippine Islands, First Philippine Holdings Corp., Metro Pacific Investment Corp., Metro Pacific Tollways Corp., Robinsons Land Corp., GMA Network, GMA Holdings, and Asian Terminals, Inc.; columnist for the Philippine Daily Inquirer; and adviser or consultant to several business, civic, and religious organizations. Mr. Panganiban was formerly the Chief Justice of the Philippine Supreme Court (2005-2006); Associate Justice of the Philippine Supreme Court (1995-2005); Chairperson of the Philippine House of Representatives Electoral Tribunal (2004-2005); Senior Partner of Panganiban Benitez Parlade Africa & Barinaga Law Office (1963-1995); President of Baron Travel Corporation (1967-1993); and professor at the Far Eastern University, Assumption Convent and San Sebastian College (1961-1970).

Management Committee

RAMON S. ANG
Chairman and
Chief Executive Officer

ERIC O. RECTO
Vice Chairman
Served as President until
February 2013

LUBIN B. NEPOMUCENO
President
Served as SVP and General
Manager until February 2013

EMMANUEL E. ERAÑA
SVP and Chief Finance Officer

SUSAN Y. YU
VP, Procurement

ROWENA O. CORTEZ
VP, Supply and Operations

FREDDIE P. YUMANG
VP, Refinery

ARCHIE B. GUPALOR
VP, National Sales

EFREN P. GABRILLO
VP, Controllers

ALBERT S. SARTE
VP, Treasurers

JOEL ANGELO C. CRUZ
VP, General Counsel and
Corporate Secretary

Corporate Governance

Petron Corporation (the "Company") adopted its Manual on Corporate Governance (the "Manual") on July 1, 2002. In compliance with Memorandum Circular No. 6, Series of 2009 of the Securities and Exchange Commission ("SEC"), amending SEC Memorandum Circular No. 2, Series of 2002, the Company further adopted revisions to the Manual which were approved by the Board of Directors on October 21, 2010. Further revisions to the Manual were also undertaken and approved by the Board of Directors on March 2, 2011.

The Manual recognizes and upholds the rights of stakeholders in the Company and reflects the key internal control features necessary for good corporate governance, such as the duties and responsibilities of the Board of Directors and the board committees, the active operation of the Company in a sound and prudent manner, the presence of organizational and procedural controls supported by an effective management information and risk management reporting systems, and the adoption of independent audit measures that monitor the adequacy and effectiveness of the Company's governance, operations and, information systems.

The Company is committed to pursuing good corporate governance. It thus keeps abreast of new developments in and leading principles and practices on good corporate governance. It also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company's corporate objectives and the best interests of its stakeholders and the Company.

Compliance

The Manual specifically provides that the Board of Directors and the management of the Company exercise sound judgment in reviewing and directing how the Company implements the requirements of good corporate governance.

Pursuant to the Manual, the Board of Directors has appointed Atty. Joel Angelo C. Cruz, Vice President – Office of the General Counsel and Corporate Secretary, as the Compliance Officer tasked to monitor compliance with the Manual and applicable laws, rules, and regulations.

The Compliance Officer directly reports to the Chairman of the Board of Directors and has direct access to the Board of Directors, through the Board Audit Committee, without interference from Management.

Shareholders' Rights

The Company is committed to respect the legal rights of its stockholders.

Voting Rights

Common stockholders have the right to elect, remove, and replace directors and vote on corporate acts and matters that require their consent or approval in accordance with the Corporation Code of the Philippines (the "Corporation Code").

At each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each of share of the capital stock held by such stockholder, subject to the provisions of the Company's by-laws, including the provision on cumulative voting in the case of the election of directors.

The Corporation's by-laws specifically provide for cumulative voting in the election of directors. The Manual also requires the affirmative vote of 70% of total issued and outstanding shares to remove a director without cause.
Preferred stockholders have the right to vote on certain corporate acts as provided and specified in the Corporation Code.

The Board of Directors is required by the Manual to be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders are encouraged to personally attend such meetings and, if they cannot attend, they are apprised ahead of time of their right to appoint a proxy.

Right to Information of Shareholders

Accurate and timely information is made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. In 2012, the notice of the annual stockholders' meeting held on May 15, 2012 was released on April 23, 2012 and further published in The Philippine Star and Business Mirror on May 4, 2012.

The Company furnishes stockholders its most recent financial statement showing in reasonable detail its assets and liabilities and the result of its operations.

At the annual meeting of the stockholders, the Board of Directors presents to the stockholders a financial report of the operations of the Company for the preceding year, which includes financial statements duly signed and certified by an independent public accountant, and allows the stockholders to ask questions or raise concerns. Duly authorized representatives of the Company's external auditor are also present at the meeting to respond to appropriate questions concerning the financial statements of the Company.

In addition to the foregoing, the Company replies to requests for information and email and telephone queries from the stockholders and keeps them informed through the Company's timely disclosures to the Philippine Stock Exchange ("PSE") and the SEC, its regular quarterly briefings and investor briefings and conferences, and the Company's website. The Company website makes available for viewing and download the Company's disclosures and filings with the SEC and PSE, its media releases, and other salient information of the Company, including its governance, business, operations, performance, corporate social responsibility projects, and sustainability efforts.

Right to Dividends

Stockholders have the right to receive dividends subject to the discretion of the Board of Directors.

The Manual provides that the Company shall declare dividends when its retained earnings exceeds 100% of its paid-in capital stock, except: (a) when justified by definite corporate expansion projects or programs approved by the Board of Directors, (b) when the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent and such consent has not been secured, or (c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

The dividends for the preferred shares is fixed at the rate of 9.5281% per annum calculated in reference to the offer price of P100 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. Since the listing of the preferred shares in March 2010, cash dividends have been paid out in March, June, September, and December of each year.

In 2012, the Company paid out a cash dividend of P0.10 per share to common shareholders and a total of P9.528 per share to preferred shareholders.

Appraisal Right

The stockholders have the right to dissent and demand payment of the fair value of their shares in the manner provided for under the Corporation Code, under any of the following circumstances: (a) when there is a change or restriction in the rights of any stockholder or class of shares, (b) when the corporation authorizes preferences in any respect superior to those of outstanding shares of any class, (c) when there is an extension or shortening of the term of corporate existence, (d) in case of a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets, (e) in case of a merger or consolidation and (f) in the event of an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation is organized.

Rights of Minority Shareholders

Minority stockholders are granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the stockholders' meeting, provided the items are for legitimate business purposes and in accordance with law, jurisprudence, and best practice.

The Company's by-laws specifically provide that a special meeting of the stockholders may be called at the written request of one or more stockholders representing at least 20% of the total issued and outstanding capital stock of the Company entitled to vote, and which request states the purpose or purposes of the proposed meeting and delivered to and called by the Corporate Secretary at the Company's principal office.

Shareholders' Meeting and Voting Procedures

All the meetings of the stockholders are held in the principal place of business of the Company or any location within Metro Manila, Philippines as may be designated by the Board of Directors. In 2012, the annual stockholders' meeting was held at the Edsa Shangri-La Manila Hotel, 1 Garden Way, Ortigas Center, Mandaluyong City, Metro Manila.

The Company encourages shareholding voting rights and exerts efforts to remove excessive unnecessary costs and other administrative impediments to the meaningful participation in meetings and/or voting in person or by proxy by all its stockholders, whether individual or institutional investors.

At each stockholders' meeting, a common stockholder is entitled to one vote, in person or by proxy, for each of share of the common capital stock held by such stockholder, subject to the provisions of the Company's by-laws, including the provision on cumulative voting in the case of the election of directors.

Under the Company's by-laws, cumulative voting is allowed in the election of directors. A common stockholder may therefore distribute his/her votes per share to as many persons as there are directors to be elected, or he/she may cumulate his shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares he/she has, or he/she may distribute them on the same principle among as many candidates as he/she shall see fit; provided, that the total number of votes cast by him/her shall not exceed the number of shares owned by him/her as shown in the books of the Company multiplied by the whole number of directors to be elected.

Preferred stockholders have the right to vote on certain corporate acts specified in the Corporation Code. If at any stockholders' meeting a vote by ballot shall be taken, the Company's by-laws require that a voting committee be created which will adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the voting committee, who need not be stockholders, will subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability. In any event, the external auditor of the Company will supervise the voting proceedings.

Board of Directors

Compliance with the principles of good corporate governance starts with the Board of Directors. The Board of Directors is responsible for overseeing management of the Company and fostering the long-term success of the Company and securing its sustained competitiveness and profitability in a manner consistent with the fiduciary responsibilities of the Board of Directors and the corporate objectives and best interests of the Company and its stakeholders.

A director's office is one of trust and confidence. A director should therefore act in the best interest of the Company and its stakeholders in a manner characterized by transparency, accountability, and fairness. To this end, the Manual requires a director to exercise leadership, prudence, and integrity in directing the Company towards sustained progress. The Manual further expressly requires that a director to conduct fair business transactions with the Company by fully disclosing any interest he/she may have in any matter or transaction to be acted upon by the Board of Directors and excuse himself/herself in the decision-making process of the Board of Directors with respect thereto and, in general, ensure that personal interest does not cause actual or potential conflict of interest with, or bias against, the interest of the Company or prejudice decisions of the Board of Directors. The Company also has a multiple board seat policy enunciated in the Manual that requires a director to exercise due discretion in accepting and holding directorships other than in the Company, provided that, in holding such directorships, such director shall ensure that his/her capacity to diligently and efficiently perform his duties and responsibilities as a director of the Company is not compromised.

The Board of Directors is composed of 15 members who were elected in accordance with the Company's by-laws and applicable laws. The directors are elected annually at the stockholders' meeting held next after their election and hold the position until their successors shall have been duly elected and qualified pursuant to the Company's by-laws.

The membership of the Board of Directors is a combination of executive and non-executive directors (who include the independent directors) in order that no director or small group of directors can dominate the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board of Directors. The diverse and varied skills, background and expertise of the directors ensure that matters that come before the Board of Directors are extensively discussed and evaluated. The names, profiles, backgrounds, and shareholdings of the directors are stated in the Definitive Information Statement of the Company distributed prior to the annual stockholders' meeting.

In 2012, the Board of Directors had five (5) meetings held on March 7, May 10, May 15, August 8 and November 12. The schedule of the meetings for the year is advised to the directors the year before. The Board of Directors was thus advised of the schedule of the board meetings for 2012 at the board meeting held on December 1, 2011. Should any matter requiring immediate approval by the Board of Directors arise, such matters are reviewed, considered, and approved at meetings of the Executive Committee, subject to the Company's by-laws. Special meetings of the Board of Directors may also be called when necessary in accordance with the Company's by-laws. The attendance of the directors at the board meetings held in 2012 is set out below:

	DIRECTORS	MEETING DATES				
		Mar	May	May	Aug	Nov
		7	10	15	9	12
1	Ramon S. Ang	/	/	/	/	/
2	Eduardo M. Cojuangco, Jr.	/	/	/	/	/
3	Estelito P. Mendoza	/	/	/	/	/
4	Roberto V. Ongpin	/	/	/	/	/
5	Eric O. Recto	/	/	/	/	/
6	Reynaldo G. David	/	/	/	/	/
7	Artemio V. Panganiban	/	/	/	/	/
8	Mirzan Mahathir	/	x	/	x	/
9	Bernardino R. Abes	/	/	/	/	/
10	Ron W. Haddock	/	/	/	/	/
11	Ferdinand K. Constantino	/	/	/	/	/
12	Virgilio S. Jacinto	/	/	/	/	/
13	Aurora T. Calderon	/	x	/	x	/
14	Romela M. Bengzon	/	/	/	/	/
15	Nelly Favis-Villafuerte	/	/	/	/	/

Independent Directors

In line with existing laws and regulations, the Company has at least two (2) independent directors in its Board of Directors, Mr. Reynaldo G. David and former Supreme Court Chief Justice Artemio V. Panganiban. The Manual defines an independent director as "a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director." An independent director is required by the Manual to submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election as an independent director.

The Chairman and Chief Executive Officer

Unless the Board of Directors designates the Chairman as the Chief Executive Officer ("CEO") pursuant to the Company's by-laws, the roles of the Chairman and CEO of the Company are separate. The Board of Directors elected Mr. Ramon S. Ang as the Chairman and CEO of the Company. Notwithstanding that the positions of Chairman and CEO are held by one person, the Company has sufficient number of directors and executives from diverse backgrounds and with varied expertise that ensures balanced and informed collegial decisions.

In addition to the duties and responsibilities as stated in the Company's by-laws, the Chairman is responsible for the following matters: (a) ensuring that the meetings of the Board of Directors are held in accordance with the Company's by-laws or as the Chairman may deem necessary, (b) supervising the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of Management and the directors, and (c) maintaining qualitative and timely lines of communication and information between the Board of Directors and Management.

Board Committees

The Board of Directors constituted the board committees described below in accordance with the principles of good corporate governance and pursuant to the Company's by-laws.

The Manual sets out the role, authority, duties and responsibilities, and the procedures of each committee and guides the conduct of its functions.

Executive Committee

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

The Manual mandates the Executive Committee to exercise the authority granted to it with utmost judiciousness and report regularly to the Board of Directors at its subsequent meeting for information.

In 2012, the Executive Committee held 10 meetings on January 11, January 12, April 23, June 19, July 10, July 17, September 25, November 22, December 4 and December 11, with all the members in attendance. All the resolutions approved by the Executive Committee were presented to and ratified by the Board of Directors at the board meeting that immediately followed each approved resolution.

The Executive Committee is chaired by Mr. Ramon S. Ang with Mr. Lubin B. Nepomuceno and Mr. Roberto V. Ongpin as members. The Company will appoint two (2) alternate members of the Executive Committee in 2013.

Nomination Committee

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

The Nomination Committee is responsible for pre-screening and shortlisting candidates nominated to become members of the Board of Directors and other appointments that require board approval to ensure that the director-candidates meet the criteria for election, i.e., they have the qualifications and none of the disqualifications set out in the law and in the Manual. The Nomination Committee thus holds meetings before the election of any director or the appointment of any officer requiring board approval to screen the candidate. In the case of independent directors, the Company's by-laws provide that their nomination be conducted by the Nomination Committee prior to the stockholders' meeting. The Company's by-laws further require the Nomination Committee to prepare a final list of candidates who have passed the guidelines, screening policies and parameters and are eligible for election as independent director.
The Nomination Committee, in consultation with the management committee and under the supervision of the Board of Directors, also redefines the role, duties and responsibilities of Chief Executive Officer of the Company by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. It is also the responsibility of the Nomination Committee to assess the effectiveness of the processes and procedures of the Board of Directors in the election or replacement of directors.

The Nomination Committee considers, among others, the following guidelines in the determination of the number of directorships which a director may hold in accordance with the policy on holding multiple board seats: (a) the nature of the business of the corporations in which he/she is a director, (b) the age of the director, (c) the number of directorships/active memberships and officerships in other corporations or organizations, and (d) possible conflict of interest. And in any case, the directors are required to ensure that their capacity to serve with diligence is not compromised.

In 2012, the Nomination Committee held two (2) meetings on March 7 and August 9, with all then current members in attendance

The Nomination Committee is chaired by Mr. Reynaldo G. David with Atty. Estelito P. Mendoza as a member. Atty. Virgilio S. Jacinto acts as advisor to the Nomination Committee. The Company will appoint the third member of the Nomination Committee in 2013 following the resignation of Mr. Eric O. Recto as a member on February 19, 2013.

Compensation Committee

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

Under the Manual, the Compensation Committee is responsible for considering and approving salary structures for individuals in the positions of Vice President (or its equivalent) and above, promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions, and other compensation policy matters such as the adoption, modification, and interpretation of corporate benefit plans.

Members of the Compensation Committee are prohibited by the Manual from participating in decisions with respect to his/her own remuneration, unless the same shall be applied to all the directors.

The Company has formal and transparent procedures for fixing the remuneration levels of individual directors and of officers. In setting salary structures and other remuneration for officers and directors, the Committee ensures that salaries and other remuneration are set at a level adequate to attract and retain directors and officers with the qualifications and experience needed to manage the Company successfully.

The Compensation Committee also ensures that the Company's annual reports, information and proxy statements, and such similar documents disclose the fixed and variable compensation received by its directors and top officers for the preceding fiscal year in accordance with the requirements of the law.

The Compensation Committee has developed a form on full Business Interest Disclosure as part of the pre-employment requirements for all incoming officers, which among others, compel all officers to declare under the penalty of perjury all their existing business interest or shareholdings that may directly or indirectly conflict in their performance of duties once hired.

The Compensation Committee is chaired by Mr. Ramon S. Ang (non-voting) with Mr. Lubin B. Nepomuceno (non-voting), Mr. Roberto V. Ongpin, Mr. Reynaldo G. David, and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acts as the advisor to the Compensation Committee.

Audit Committee

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

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

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

External Audit

Manabat Sanagustin Co. & CPAs/KPMG ("KPMG") was the external auditor of the Company appointed by the stockholders of the Company upon recommendation of the Board of Directors for fiscal years 2010, 2011 and 2012, subject to applicable rules on rotation set by the SEC. The Manual requires the external auditor to observe and enable an environment of good corporate governance as reflected in the financial records and reports of the Company, undertake an independent audit, and provide objective assurance on the manner by which the financial statements are prepared and presented to the shareholders. Duly authorized representatives of KPMG are expected to attend the annual stockholders' meetings to respond to appropriate questions concerning the financial statements of the Company. KPMG auditors are also given the opportunity to make a representation or statement in case they decide to do so.

Internal Audit

The Company has in place an independent internal audit function performed by the Internal Audit Department (IAD), which provides the senior management, the Audit Committee and the Board of Directors reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and being complied with. The IAD is guided by the International Standards on Professional Practice of Internal Auditing. It reports functionally to the Audit Committee and administratively to the Chief Finance Officer. The Manual requires the head of the IAD to submit to the Audit Committee and the Management an annual report on the IAD's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee, include significant risk exposure, control issues and such other matters as may be needed or requested by the Board of Directors and Management.

The Audit Committee Charter requires the conduct of annual evaluation of the Audit Committee's performance and the reporting of the results thereof to the Board of Directors.

In 2012, the Audit Committee held four (4) meetings on March 7, May 10, August 9, and November 12. Except for the May 10 meeting, all members of the Audit Committee were in attendance in the meetings held in 2012.

The Audit Committee is chaired by Mr. Reynaldo G. David (independent director) with Atty. Estelito P. Mendoza, Ms. Aurora T. Calderon and Retired Chief Justice Artemio V. Panganiban as members. Mr. Ferdinand K. Constantino acts as the advisor to the Audit Committee. The Company will appoint the fifth member of the Audit Committee in 2013 following the resignation of Mr. Ferdinand K. Constantino as a member on February 19, 2013.

Disclosure System

The Manual recognizes that the essence of corporate governance is transparency and it expressly states the commitment of the Company to fully and timely disclose material information concerning the Company's operations that can potentially affect share price, including earnings results, acquisition or disposal of major assets, changes in the Board of Directors, significant related party transactions (excluding the purchase of crude oil in the normal course of business), shareholdings of directors and changes in ownership exceeding 5% of the corporation's outstanding share capital. The Manual further requires the disclosure of other information such as remuneration of all directors and senior management, corporate strategy and any off balance sheet transactions pursuant to the requirements of the law. All disclosed information is released through the approved stock exchange procedure for Company announcements as well as through the Company's annual report.

The Manual further mandates the Company to adhere to transparent governance, commit at all times to fully disclose material information dealings, and cause the filing of all the required information for the interest of the stakeholders.

Stakeholder Relations

The Company replies to information requests and email and telephone queries and keeps the public informed through the Company's timely PSE and SEC disclosures, its regular quarterly briefings and investor briefings and conferences, and the Company's website. The Company's disclosures and filings with the SEC and PSE, its media releases, and other salient information on the Company, including its governance, business, operations, performance, corporate social responsibility projects and sustainability efforts may be found in the Company website www.petron.com.

Code of Conduct and Ethical Business Policy Whistle-blowing Policy

The Company's Code of Conduct and Ethical Business Policy sets the standards for ethical and business conduct of the directors, officers and employees and expresses the commitment of the Company to conduct its business fairly, honestly, impartially and in good faith, and in an uncompromising ethical and proper manner. The Code of Conduct and Ethical Business Policy expressly provides a proscription against engaging in any activity in conflict with the interest of the Company and it requires a full disclosure of any interest in the Company. The Code of Conduct and Ethical Business Policy also specifically prohibits bribery and any solicitation, receipt, offer or making of any illegal payments, favors, donations or comparable gifts which are intended to obtain business or uncompetitive favors.

The Code of Conduct and Ethical Business Policy requires anyone having information or knowledge of any prohibited act to promptly report such matter to the Department Head, any Vice President, the Human Resources Management Department, the IAD or the General Counsel.

San Miguel Corporation ("SMC"), the parent company of the Company, has established the San Miguel Corporation and Subsidiaries Whistle-blowing Policy for itself and its subsidiaries. This policy provides for the procedures for the communication and investigation of concerns relating to accounting, internal accounting controls, auditing and financial reporting matters. The whistle-blowing policy expresses the commitment of the SMC Group that it shall not tolerate retaliation in any form against a director, officer, employee or any the other interested party who, in good faith, raises a concern or reports a possible violation of the policy.

Financial Highlights

Amounts in Million Pesos (Except Earnings Per Share)

	2010	2011	2012
Net revenues	229,094	273,956	**424,795**
Net income	7,924	8,485	**2,277**
EBITDA	15,969	18,553	**14,623**
Property, Plant and Equipment	34,957	50,446	**102,140**
Total assets	161,816	175,795	**279,200**
Total equity	53,344	59,687	**76,138**
Net Debt	42,875	66,638	**128,783**
Earnings per share	0.77	0.78	**0.13**
Sales Volume (in Million Barrels)	48,288	46,697	**74,276**

Significant milestone...

By the end of the first quarter of 2012, the Parent Company's indirect offshore subsidiary, POGI, completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) (POGI, EMB, EMMSB, and EMBSB are collectively hereinafter referred to as "Petron Malaysia"). Following the completion of the Unconditional Mandatory Take-Over Offer required by Malaysian laws to be undertaken by POGI, POGI's interest in EMB increased to 73.4%. EMB, EMMSB, and EMBSB were later renamed Petron Malaysia Refining & Marketing Bhd, Petron Fuel International Sdn Bhd and Petron Oil (M) Sdn Bhd, respectively.

The consolidation of Petron Malaysia (PM) in the second quarter of 2012 resulted in a significant increase in the company's assets. Meanwhile, margins of both Philippine and Malaysian operations were tempered due to volatility in crude and product prices in the global market.

Modest income...

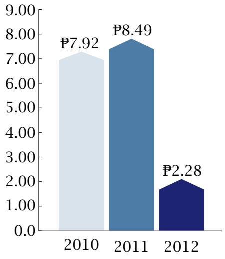
Coming from a record loss of ₱2.1 billion in the second quarter of 2012, Petron managed a turnaround and realized a net income of ₱2.3 billion during the year, lower than the ₱8.5 billion profit reported in 2011. As a result, earnings per share dropped to ₱0.13 from ₱0.78 the previous year. Similarly, earnings before interest, taxes, depreciation and amortization (EBITDA) fell by 21% to ₱14.6 billion.

Petron's aggregate sales volume surged to 74.3 million barrels (MMB), 59% higher than the 46.7 MMB in 2011. Aside from the 26.6 MMB volume contributed by Petron Malaysia (PM), domestic sales volume also went up by 8% with increases coming from all sectors particularly Retail, Industrial and LPG. The improved domestic performance outpaced the 4% growth of the total industry and strengthened the company's leadership position with a market share of 38.5%.

Net Sales Revenue reached ₱424.8 billion in 2012, 55% up from last year's level attributed mainly to the consolidation of PM and boosted by the increase in domestic sales volume.

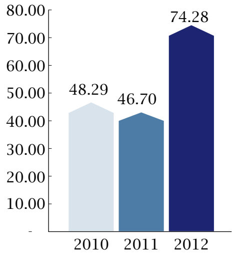
Net Income

In Billions



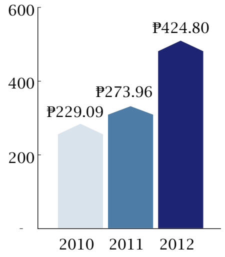
Sales Volume

In MMB



Net Revenues

In Billions



Selling and administrative expenses exceeded last year's level by 20% owing primarily to the ₱2.5 billion expenses of PM. Financing costs increased to ₱6.4 billion attributed to higher interest expense and bank charges on top of the charges incurred by PM.

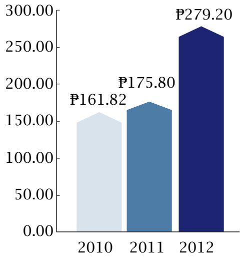
Effective tax rate in 2012 stood at 23%, 1% below the previous year's rate, and significantly better than the statutory corporate income tax rate of 30%, with the availment of various income tax incentives on BOI-registered projects.

59% increase in Total Assets...

Petron's consolidated resources went up to ₱279.2 billion at the end of 2012, significantly higher from the end December 2011 level of ₱175.8 billion. Aside from the total assets brought in by PM, Petron Philippines' (PP) assets grew by ₱39.6 billion due to the substantial investment in property, plant and equipment coupled by the increase in receivables from the government.

Total Assets

In Billions



Total liabilities increased by 75% from ₱116.1 billion to ₱203.1 billion due to the higher short-term loan of PP to support the surge in working capital requirements. The company also availed of additional long-term debt to finance the company's various projects at the Refinery and the construction of additional service stations.

Meanwhile, Total Equity of ₱76.1 billion as of December 31, 2012 surpassed the ₱59.7 billion level the year before largely from the issuance of preferred shares by a subsidiary.

Higher capital spending...

In Million Pesos

	2010	2011	2012
Beginning cash balance	12,985	43,984	
Operating cash flows	17,453	790	1,854
Investing cash flows	(21,241)	(22,637)	(63,681)
Financing cash flows	34,598	1,658	65,407
Effects of exchange rate changes	189	28	(438)
Ending cash balance	43,984	23,823	26,965

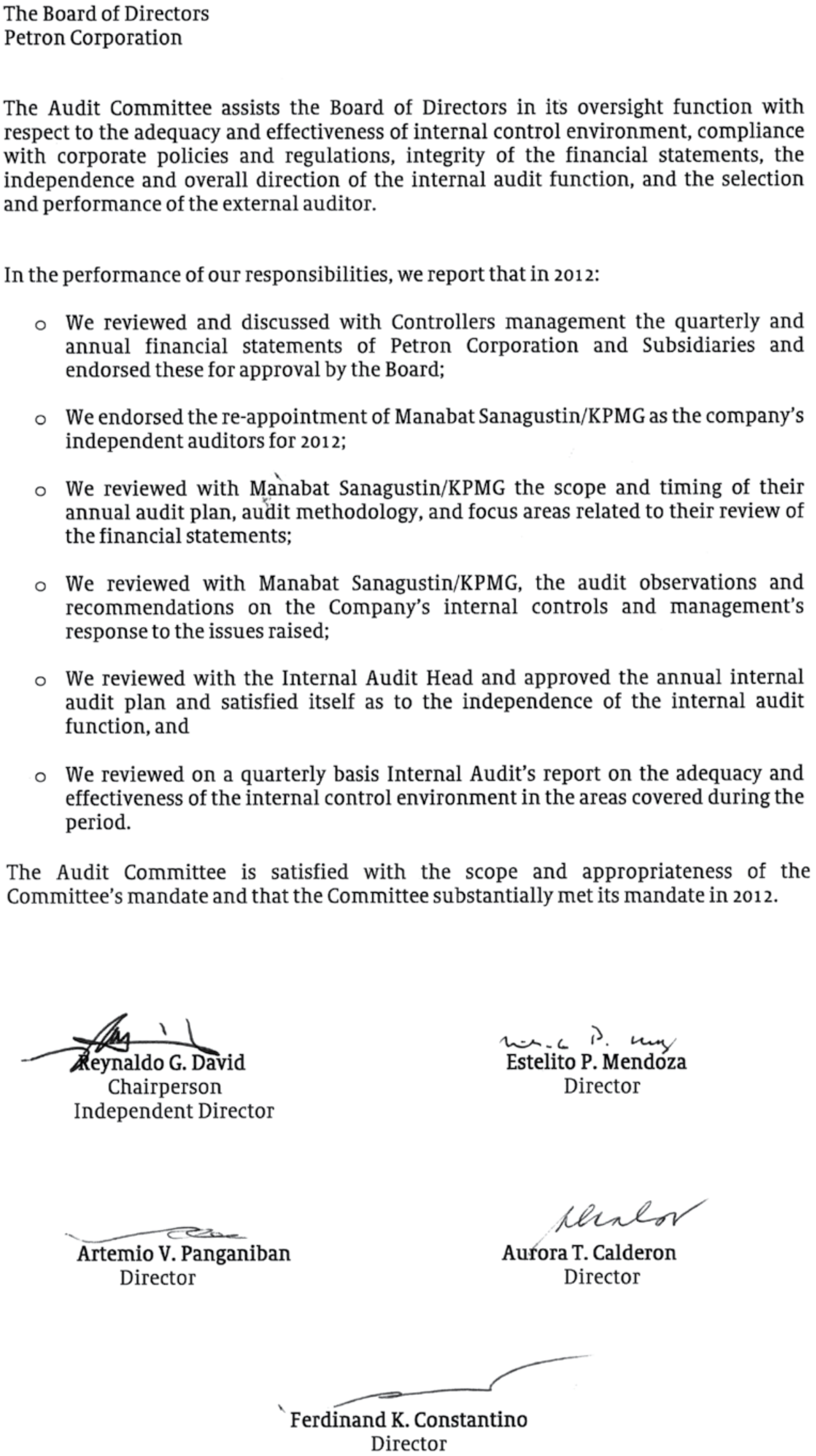
Capital spending rose to ₱63.7 billion in 2012 from ₱22.6 billion in 2011 with the ongoing construction of the Refinery Solid Fuel-Fired Boiler and Refinery Master Plan Phase-2 Project or RMP-2, as well as the acquisition of Petron Malaysia.

Funding of these projects was sourced mainly from bank loans and issuance of preferred shares. Additional cash requirement was source from the issuance of preferred shares by a subsidiary.

Cash balance at the end of 2012 stood at ₱27 billion.

PETRON CORPORATION AND SUBSIDIARIES

Audit Committee Report



The Board of Directors
Petron Corporation

The Audit Committee assists the Board of Directors in its oversight function with respect to the adequacy and effectiveness of internal control environment, compliance with corporate policies and regulations, integrity of the financial statements, the independence and overall direction of the internal audit function, and the selection and performance of the external auditor.

In the performance of our responsibilities, we report that in 2012:

- We reviewed and discussed with Controllers management the quarterly and annual financial statements of Petron Corporation and Subsidiaries and endorsed these for approval by the Board;
- We endorsed the re-appointment of Manabat Sanagustin/KPMG as the company's independent auditors for 2012;
- We reviewed with Manabat Sanagustin/KPMG the scope and timing of their annual audit plan, audit methodology, and focus areas related to their review of the financial statements;
- We reviewed with Manabat Sanagustin/KPMG, the audit observations and recommendations on the Company's internal controls and management's response to the issues raised;
- We reviewed with the Internal Audit Head and approved the annual internal audit plan and satisfied itself as to the independence of the internal audit function, and
- We reviewed on a quarterly basis Internal Audit's report on the adequacy and effectiveness of the internal control environment in the areas covered during the period.

The Audit Committee is satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2012.

Reynaldo G. David
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Director

Aurora T. Calderon
Director

Ferdinand K. Constantino
Director

Financial Statements

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Report of Independent Auditors

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Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Equity

Consolidated Statements of Cash Flows

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PETRON CORPORATION AND SUBSIDIARIES

Statement of Management's Responsibility For Financial Statements

The management of **Petron Corporation** (the **"Company) and Subsidiaries,** is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2012 and 2011,** including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

RAMON S. ANG
Chairman and Chief Executive Officer

LUBIN B. NEPOMUCENO
President

EMMANUEL E. ERAÑA
Chief Finance Officer

PETRON CORPORATION AND SUBSIDIARIES

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Petron Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Petron Corporation and Subsidiaries as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

MANABAT SANAGUSTIN & CO., CPAs

ADOR C. MEJIA
Partner
CPA License No. 0029620
SEC Accreditation No. 0464-AR-2, Group A, valid until March 24, 2016
Tax Identification No. 112-071-634
BIR Accreditation No. 08-001987-10-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3669522MC
Issued January 2, 2013 at Makati City

March 25, 2013
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Position

(Amounts in Million Pesos)

		December 31	
	Note	**2012**	2011
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 34, 35*	**P26,965**	P23,823
Financial assets at fair value through profit or loss	*7, 34, 35*	**186**	237
Available-for-sale financial assets	*8, 34, 35*	**51**	-
Trade and other receivables - net	*4, 9, 28, 34, 35*	**57,731**	26,605
Inventories	*4, 10*	**49,582**	37,763
Other current assets	*15*	**10,750**	8,178
		145,265	96,606
Assets held for sale	*5*	**588**	10
Total Current Assets		**145,853**	96,616
Noncurrent Assets			
Available-for-sale financial assets	*8, 34, 35*	**860**	1,036
Property, plant and equipment - net	*4, 12, 37*	**102,140**	50,446
Investments in associates	*4, 11*	**1,641**	2,505
Investment property - net	*4, 13*	**115**	794
Deferred tax assets	*4, 27*	**78**	15
Goodwill	*4, 14*	**10,261**	-
Other noncurrent assets - net	*4, 15, 34, 35*	**18,252**	24,383
Total Noncurrent Assets		**133,347**	79,179
		P279,200	P175,795
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*16, 34, 35*	**P99,735**	P40,593
Liabilities for crude oil and petroleum product importation	*34, 35*	**24,960**	13,842
Trade and other payables	*17, 28, 34, 35*	**14,867**	7,381
Derivative liabilities	*34, 35*	**245**	55
Income tax payable		**52**	78
Current portion of long-term debt - net	*18, 34, 35*	**73**	4,124
Total Current Liabilities		**139,932**	66,073

Forward

		December 31	
	Note	**2012**	2011
Noncurrent Liabilities			
Long-term debt - net of current portion	*18, 34, 35*	**P55,940**	P45,744
Retirement benefits liability	*30*	**713**	671
Deferred tax liabilities	*27*	**3,045**	1,819
Asset retirement obligation	*4, 19*	**997**	1,061
Other noncurrent liabilities	*20, 34, 35*	**2,435**	740
Total Noncurrent Liabilities		**63,130**	50,035
Total Liabilities		**203,062**	116,108
Equity Attributable to Equity Holders of the Parent Company	*21*		
Capital stock		**9,475**	9,475
Additional paid-in capital		**9,764**	9,764
Retained earnings		**40,397**	40,088
Other reserves		**(366)**	70
Total Equity Attributable to Equity Holders of the Parent Company		**59,270**	59,397
Non-controlling interests		**16,868**	290
Total Equity		**76,138**	59,687
		P279,200	P175,795

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Million Pesos, Except Per Share Amounts)

	Note	**2012**	2011	2010
SALES	*28, 37*	**P424,795**	P273,956	P229,094
COST OF GOODS SOLD	*22*	**405,976**	250,826	209,280
GROSS PROFIT		**18,819**	23,130	19,814
SELLING AND ADMINISTRATIVE EXPENSES	*23*	**(9,426)**	(7,865)	(6,942)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*26*	**(7,508)**	(5,124)	(4,297)
INTEREST INCOME	*26*	**1,121**	1,380	827
SHARE IN NET LOSSES OF ASSOCIATES	*11*	**(11)**	(137)	(151)
OTHER INCOME (EXPENSE) - NET	*26*	**(45)**	(263)	1,048
		(15,869)	(12,009)	(9,515)
INCOME BEFORE INCOME TAX		**2,950**	11,121	10,299
INCOME TAX EXPENSE	*27, 36*	**673**	2,636	2,375
NET INCOME		**P2,277**	P8,485	P7,924
Attributable to:				
Equity holders of the Parent Company	*32*	**P2,199**	P8,469	P7,894
Non-controlling interests		**78**	16	30
		P2,277	P8,485	P7,924
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	*32*	**P0.13**	P0.78	P0.77

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Million Pesos)

	Note	**2012**	2011	2010
NET INCOME		**P2,277**	P8,485	P7,924
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized fair value gains (losses) on available-for-sale financial assets (net of tax effects of P10 in 2010)	*8, 21*	**10**	(1)	22
Exchange differences on translation of foreign operations	*21*	**(1,214)**	(12)	2
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - NET OF TAX		**(1,204)**	(13)	24
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P1,073**	P8,472	P7,948
Attributable to:				
Equity holders of the Parent Company		**P1,763**	P8,456	P7,918
Non-controlling interests		**(690)**	16	30
		P1,073	P8,472	P7,948

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Million Pesos)

		Equity Attributable to Equity Holders of the Parent Company							
				Retained Earnings					
	Note	Capital Stock	Additional paid-in capital	Appro-priated	Unappro-priated	Other Reserves	Total	Non-controlling Interests	Total Equity
As of January 1, 2012		**P9,475**	**P9,764**	**P25,171**	**P14,917**	**P70**	**P59,397**	**P290**	**P59,687**
Unrealized fair value gain on available-for-sale financial assets		**-**	**-**	**-**	**-**	**10**	**10**	**-**	**10**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**(446)**	**(446)**	**(768)**	**(1,214)**
Other comprehensive loss		**-**	**-**	**-**		**(436)**	**(436)**	**(768)**	**(1,204)**
Net income for the year		**-**	**-**	**-**	**2,199**	**-**	**2,199**	**78**	**2,277**
Total comprehensive income (loss) for the year		**-**	**-**	**-**	**2,199**	**(436)**	**1,763**	**(690)**	**1,073**
Cash dividends	*21*	**-**	**-**	**-**	**(1,890)**	**-**	**(1,890)**	**-**	**(1,890)**
Net additions to non-controlling interests and others		**-**	**-**	**-**	**-**	**-**	**-**	**17,268**	**17,268**
As of December 31, 2012		**P9,475**	**P9,764**	**P25,171**	**P15,226**	**(P366)**	**P59,270**	**P16,868**	**P76,138**
As of January 1, 2011		P9,475	P9,764	P15,543	P18,205	P83	P53,070	P274	P53,344
Unrealized fair value loss on available-for-sale financial assets		-	-	-	-	(1)	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	-	(12)	(12)	-	(12)
Other comprehensive loss						(13)	(13)	-	(13)
Net income for the year		-	-	-	8,469	-	8,469	16	8,485
Total comprehensive income (loss) for the year		-	-	-	8,469	(13)	8,456	16	8,472
Appropriation for capital projects	*21*	-	-	9,628	(9,628)	-	-	-	-
Cash dividends	*21*	-	-	-	(2,129)	-	(2,129)	-	(2,129)
As of December 31, 2011		P9,475	P9,764	P25,171	P14,917	P70	P59,397	P290	P59,687
As of January 1, 2010		P9,375	P -	P15,492	P12,014	P59	P36,940	P244	P37,184
Unrealized fair value gain on available-for-sale financial assets, net of tax		-	-	-	-	22	22	-	22
Exchange differences on translation of foreign operations		-	-	-	-	2	2	-	2
Other comprehensive income		-	-	-	-	24	24	-	24
Net income for the year		-	-	-	7,894	-	7,894	30	7,924
Total comprehensive income for the year		-	-	-	7,894	24	7,918	30	7,948
Appropriation for capital projects	*21*	-	-	51	(51)	-	-	-	-
Cash dividends	*21*	-	-	-	(1,652)	-	(1,652)	-	(1,652)
Issuance of shares	*21*	100	9,764	-	-	-	9,864	-	9,864
As of December 31, 2010		P9,475	P9,764	P15,543	P18,205	P83	P53,070	P274	P53,344

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Million Pesos)

	Note	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P2,950**	P11,121	P10,299
Adjustments for:				
Share in net losses of associates	*11*	**11**	137	151
Retirement benefits cost (income)	*30*	**(550)**	422	197
Interest expense and other financing charges	*26*	**7,508**	5,124	4,297
Depreciation and amortization	*25*	**5,113**	3,657	3,540
Interest income	*26*	**(1,121)**	(1,380)	(827)
Unrealized foreign exchange losses (gains) - net		**(556)**	123	(1,053)
Other gain		**(1,116)**	(78)	(76)
Operating income before working capital changes		**12,239**	19,126	16,528
Changes in noncash assets, certain current liabilities and others	*33*	**(3,828)**	(13,639)	4,123
Interest paid		**(7,127)**	(5,309)	(3,897)
Income taxes paid		**(616)**	(752)	(108)
Interest received		**1,186**	1,364	807
Net cash flows provided by operating activities		**1,854**	790	17,453
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to (including disposals):				
Property, plant and equipment	*12*	**(41,145)**	(19,070)	(4,417)
Investment property	*13*	**-**	96	-
Decrease (increase) in:				
Other receivables		**(15,498)**	(637)	6,087
Other noncurrent assets		**11,803**	2,232	939
Reductions from (additions to):				
Financial assets at fair value through profit or loss		**29**	(9)	40
Investments		**(14)**	(5,374)	(24,084)
Available-for-sale financial assets		**125**	125	194
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**(18,981)**	-	-
Net cash flows used in investing activities		**(63,681)**	(22,637)	(21,241)

Forward

	Note	**2012**	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**P335,351**	P134,354	P204,941
Payments of:				
Loans		**(283,459)**	(131,148)	(178,913)
Cash dividends	*21*	**(2,436)**	(1,886)	(1,628)
Proceeds from issuance of a subsidiary's preferred stock to non-controlling interests		**14,216**	-	-
Issuance of preferred stock		**-**	-	9,864
Increase in other noncurrent liabilities		**1,735**	338	334
Net cash flows provided by financing activities		**65,407**	1,658	34,598
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(438)**	28	189
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**3,142**	(20,161)	30,999
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**23,823**	43,984	12,985
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P26,965**	P23,823	P43,984

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

DECEMBER 31, 2012, 2011 AND 2010

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

1. Reporting Entity

Petron Corporation (the "Parent Company" or "Petron") was incorporated under the laws of the Republic of the Philippines and is registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1966. The consolidated financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 comprise the financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entity. Petron is the largest oil refining and marketing company in the Philippines supplying nearly 40% of the country's fuel requirements. Petron's vision is to be the leading provider of total customer solutions in the energy sector and its derivative businesses.

Petron operates a refinery in Limay, Bataan, with a rated capacity of 180,000 barrels a day. Petron's International Standards Organization (ISO) 14001 - certified refinery processes crude oil into a full range of petroleum products including liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts, mixed xylene and propylene. From the refinery, Petron moves its products mainly by sea to Petron's 31 depots and terminals situated all over the country. Through this nationwide network, Petron supplies fuel oil, diesel, and LPG to various industrial customers. The power sector is Petron's largest customer. Petron also supplies jet fuel at key airports to international and domestic carriers.

Through its 2,015 service stations, Petron remains the leader in all the major segments of the market. Petron retails gasoline, diesel, and kerosene to motorists and public transport operators. Petron also sells its LPG brands "Gasul" and "Fiesta" to households and other industrial consumers through an extensive dealership network. To broaden its market base and further strengthen its leadership in the LPG business, Petron launched a second LPG brand called "Fiesta Gas" in 2008.

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

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

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

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

Petron's shares of stock are listed for trading at the Philippine Stock Exchange (PSE). SEA Refinery Holdings B.V. (SEA BV), a company incorporated in The Netherlands and owned by funds managed by the Ashmore Group, was Petron's parent company prior to 2010.

On December 24, 2008, San Miguel Corporation (SMC) and SEA BV entered into an Option Agreement (the "Option Agreement") granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary, SEA Refinery Corporation (SRC). The option may be exercised by SMC within a period of two years from December 24, 2008.

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

On April 30, 2010, SMC notified SEA BV that it would exercise its option to purchase 16,000,000 shares of SRC from SEA BV, which is approximately 40% of the outstanding capital stock of SRC. SRC owns 4,696,885,564 common shares of Petron, representing approximately 50.1% of its issued and outstanding common shares. SMC conducted a tender offer for the common shares of Petron as a result of its intention to exercise the option to acquire 100% of SRC from SEA BV under the Option Agreement. A total of 184,702,538 Petron common shares tendered were crossed at the PSE on June 8, 2010, which were equivalent to approximately 1.97% of the issued and outstanding common stock of Petron. On June 15, 2010, SMC executed the Deed of Sale for the purchase of the 16,000,000 shares of SRC from SEA BV.

On July 30, 2010, the Petron Corporation Employees' Retirement Plan (PCERP) bought 2,276,456,097 common shares in Petron comprising 24.025% of the total outstanding capital stock thereof from SEA B.V. The purchase and sale transaction was executed through the facilities of the PSE.

On August 31, 2010, SMC purchased additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE. The said shares comprise approximately 16% of the outstanding capital stock of Petron.

On October 18, 2010, SMC also acquired from the public a total of 530,624 common shares of Petron, representing approximately 0.006% of the outstanding capital stock of Petron.

On December 15, 2010, SMC exercised its option to acquire the remaining 60% of SRC from SEA BV pursuant to the Option Agreement. With the exercise of the option, SMC became beneficial owner of approximately 68.26% of the outstanding and issued shares of stock of Petron. As such, on that date, SMC obtained control of SRC and Petron.

On January 24, 2012, PCERP sold 695,300,000 of its common shares in Petron to various foreign institutional investors through the facilities of the PSE. On December 5, 2012, PCERP further sold 195,000,000 of its common shares in Petron. With the sale of PCERP's shares in Petron, Petron's public float increased to 16.75%.

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements as at and for the year ended December 31, 2012 were approved and authorized for issue by the BOD on March 18, 2013.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis of accounting, except for the following:

- derivative financial instruments, financial assets at fair value through profit or loss (FVPL), and available-for-sale (AFS) financial assets are measured at fair value; and

- defined benefit liability is measured as the net total of the fair value of the plan assets, less unrecognized actuarial gains and the present value of the defined benefit obligation.

Functional and Presentation Currency

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

Basis of Consolidation

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

Name of Subsidiary	Percentage of Ownership		Country of Incorporation
	2012	2011	
Overseas Ventures Insurance Corporation (Ovincor)	**100.00**	100.00	Bermuda
Petrogen Insurance Corporation (Petrogen)	**100.00**	100.00	Philippines
Petron Freeport Corporation (PFC)	**100.00**	100.00	Philippines
Petron Singapore Trading Pte., Ltd. (PSTPL)	**100.00**	100.00	Singapore
Petron Marketing Corporation (PMC)	**100.00**	100.00	Philippines
New Ventures Realty Corporation (NVRC) and Subsidiaries	**40.00**	40.00	Philippines
Limay Energen Corporation (LEC)	**100.00**	40.00	Philippines
Petron Global Limited (PGL)	**100.00**	-	British Virgin Islands
Petron Finance (Labuan) Limited	**100.00**	-	Malaysia
Petron Oil and Gas Mauritius Ltd. and Subsidiaries (Mauritius)	**100.00**	-	Mauritius

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

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

NVRC's primary purpose is to acquire real estate and derive income from its sale or lease. NVRC is considered as a subsidiary of Petron despite owning only 40% as Petron has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meeting of the BOD of NVRC.

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

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

On March 30, 2012, the Parent Company's indirect offshore subsidiary, Petron Oil and Gas International Sdn. Bhd. (POGI), completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) (POGI, EMB, EMMSB, and EMBSB are collectively hereinafter referred to as "Petron Malaysia"). Following the completion of the Unconditional Mandatory Take-Over Offer required by Malaysian laws to be undertaken by POGI, POGI's interest in EMB increased to 73.4%. EMB, EMMSB and EMBSB were later renamed Petron Malaysia Refining & Marketing Bhd, Petron Fuel International Sdn Bhd and Petron Oil (M) Sdn Bhd, respectively (Note 14).

A subsidiary is an entity controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

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

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

Non-controlling interests represent the interests not held by the Group in NVRC and Petron Malaysia.

3. Significant Accounting Policies

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

Adoption of Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of amendments to standards and interpretations as part of PFRS.

The Group has adopted the following amendments to PFRS 7 and interpretation starting January 1, 2012 and accordingly, changed its accounting policies.

- Amendments to PFRS 7, *Disclosures - Transfers of Financial Assets,* which requires additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognized financial assets.

- PIC Q&A No. 2011-03, *Accounting for Inter-company Loans*, provides guidance on how should an interest free or below market rate loan between group companies be accounted for in the separate or stand-alone financial statements of the lender and the borrower (i) on the initial recognition of the loan; and (ii) during the periods to repayment.

The adoption of the above amendments to PFRS 7 and interpretation did not have a material effect on the consolidated financial statements. Additional disclosures required by the amendments to PFRS 7 and interpretation were included in the consolidated financial statements, where applicable.

New and Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new and revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing the consolidated financial statements. Those which may be relevant to the Group are set out below. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the consolidated statement of comprehensive income to consolidated statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The adoption of the amendments is required for annual periods beginning on or after July 1, 2012.

- Disclosures: Offsetting Financial Assets and Financial Liabilities *(Amendments to PFRS 7)*. These amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements,* introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements* and Philippine Interpretation Standards Interpretation Committee (SIC) - 12, *Consolidation - Special Purpose Entities.* The adoption of the new standard may result to changes in consolidation conclusion in respect of the Group's investees which may lead to changes in the current accounting for these investees. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). The new standard: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) eliminates the option of using the equity method or proportionate consolidation as it always requires the use of equity method for jointly controlled entities that are now called joint ventures. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. The new standard provides information that enables users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) the effects of those interests on the entity's financial position, financial performance and cash flows. The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint arrangements and associates in comparison with the existing disclosure. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance *(Amendments to PFRS 10, PFRS 11, and PFRS 12).* The amendments: (a) simplify the process of adopting PFRS 10 and 11, and provide relief from the disclosures in respect of unconsolidated structured entities; (b) simplify the transition and provide additional relief from the disclosures that could have been onerous depending on the extent of comparative information provided in the consolidated financial statements; and (c) limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement,* replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group is currently reviewing its methodologies in determining fair values. The adoption of the new standard is required for annual periods beginning on or after January 1, 2013.

- PAS 19, *Employee Benefits* (Amended 2011), includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2013.

  The effect on the Group's consolidated financial statements of the retrospective application of the amendments to PAS 19 is estimated to increase retirement assets, increase retirement liabilities and decrease in other comprehensive income by P391, P273 and P713, respectively, with a corresponding adjustment to the opening retained earnings amounting to P2,985 in 2013.

- PAS 27, *Separate Financial Statements* (2011), supersedes PAS 27 (2008). PAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest. The adoption of the amendments is not expected to have an effect on the consolidated financial statements since the Group continues to account for its investments in associates at equity method. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:

  - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1)*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

  - Presentation of the Opening Statement of Financial Position and Related Notes *(Amendments to PAS 1)*. The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification has a material effect upon the information in that consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different. Consequential amendments have been made to PAS 34, *Interim Financial Reporting.* The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

  - Classification of Servicing Equipment (*Amendments to PAS 16*, *Property, Plant and Equipment)*. The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

  - Income Tax Consequences of Distributions *(Amendments to PAS 32*, *Financial Instruments Presentation)*. The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.* The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

  - Segment Assets and Liabilities (*Amendments to PAS 34*). This is amended to align the disclosure requirements for segment assets and segment liabilities in interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment. The adoption of the amendments is required for annual periods beginning on or after January 1, 2013.

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

- Investment Entities *[Amendments to PFRS 10, PFRS 12, and PAS 27 (2011)]*. The amendments provide consolidation exception for investment funds and require qualifying investment entities to recognize their investments in controlled entities, as well as investments in associates and joint ventures, in a single line item in the statement of financial position, measured at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. However, the parent of an investment entity (that is not itself an investment entity) is still required to consolidate all subsidiaries. This consolidation exception is mandatory. The adoption of the amendments is required for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments (2010) and (2009).* PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The adoption of the new standard is expected to have an effect on the classification and measurement of the Group's financial assets. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

Financial Assets and Financial Liabilities

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

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

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

Determination of Fair Value. The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there is no significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

Financial Assets

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

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

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

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

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

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are presented in the consolidated statements of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized under the caption marked-to-market gains (losses) included as part of "Other income (expenses)" in the consolidated statements of income.

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

The Group's derivative assets and financial assets at FVPL are classified under this category (Note 7).

The combined carrying amounts of financial assets under this category amounted to P186 and P237 as of December 31, 2012 and 2011, respectively (Note 7 and 35).

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

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

The Group's cash and cash equivalents, trade and other receivables, due from related parties and long-term receivables are included in this category (Notes 6, 9 and 15).

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

The combined carrying amounts of financial assets under this category amounted to P95,556 and P74,303 as of December 31, 2012 and 2011, respectively (Note 35).

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

The Group has no investments accounted for under this category as of December 31, 2012 and 2011.

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

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

The Group’s investments in equity and debt securities included under “Available-for-sale financial assets” account are classified under this category (Note 8).

The carrying amounts of financial assets under this category amounted to P911 and P1,036 as of December 31, 2012 and 2011, respectively (Note 35).

Financial Liabilities

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

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

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

The carrying amounts of financial liabilities under this category amounted to P245 and P55 as of December 31, 2012 and 2011, respectively (Note 35).

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

The Group’s liabilities arising from its short term loans, liabilities for crude oil and petroleum product importation, trade and other payables, long-term debt, cash bonds, cylinder deposits and other noncurrent liabilities are included under this category (Notes 16, 17, 18 and 20).

The combined carrying amounts of financial liabilities under this category amounted to P197,252 and P111,643 as of December 31, 2012 and 2011, respectively (Note 35).

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

The Group discontinues fair value hedge accounting if the hedging instrument expired, sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

The Group has no outstanding derivatives accounted for as fair value hedges as of December 31, 2012 and 2011.

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

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

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

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2012 and 2011.

Net Investment Hedge. The Group has no hedge of a net investment in a foreign operation as of December 31, 2012 and 2011.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

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

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

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Impairment of Financial Assets
The Group assesses at the reporting date whether a financial asset or group of financial assets is impaired.

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity
From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

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

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

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

Business Combination
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment determined in accordance with PFRS 8.

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

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

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

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

- *Loss of Control*
  Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, its retained interest is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

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

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

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

Investments in Associates
The Group's investments in associates are accounted for using the equity method of accounting from the date when they become associates. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is presumed to exist when the Group holds between 20 to 50 percent of the voting power of another entity.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share on the profit or loss of the associate after the date of acquisition. The Group's share on the profit or loss of the associate is recognized as "Share in net losses of associates" in the Group's consolidated statements of income. Dividends received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share on those changes is recognized in other comprehensive income.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. Profits or losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Upon acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with PFRS 3, *Business Combinations*. Consequently:

a. goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

b. any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

The Group discontinues applying the equity method when its investment in an associate is reduced to zero. Additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes applying the equity method only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

The financial statements of the associates are prepared for the same reporting period as the Parent Company. The accounting policies of the associates conform to those used by the Group for like transactions and events in similar circumstances.

Interest in a Joint Venture

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

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

Property, Plant and Equipment

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

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

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

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

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

	Number of Years
Buildings and related facilities	2 - 30
Refinery and plant equipment	5 - 30
Service stations and other equipment	1 1/2 - 30
Computers, office and motor equipment	2 - 20
Land and leasehold improvements	10 or the term of the lease, whichever is shorter

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

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

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

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

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

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

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

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

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

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

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

Amortization is computed using the straight-line method over 5 to 10 years.

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

As of December 31, 2012 and 2011, the Group has existing and pending trademark registration for its products for a term of 10 to 20 years. It also has copyrights for its 7-kg LPG container, Gasulito with stylized letter "P" and two flames, for Powerburn 2T, and for Petron New Logo (22 styles). Copyrights endure during the lifetime of the creator and for another 50 years after creator's death.

The amount of intangible assets is included under the caption of Others in the "Other noncurrent assets" in the consolidated statements of financial position.

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

Impairment of Nonfinancial Assets

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

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

Cylinder Deposits

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

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

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

Provisions

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

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

Capital Stock

Common Shares

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

Preferred Shares

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

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

Retained Earnings

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

Revenue Recognition

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

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

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

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

Rent. Revenue from investment property is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease. Rent income is included as part of other income.

Cost and Expense Recognition

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

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

Leases

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

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

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

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

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

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

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

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

Employee Benefits
The Group has a tax qualified and fully funded defined benefit pension plan covering all permanent, regular, full-time employees administered by trustee banks. Retirement benefits cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized actuarial gains and losses and past service costs, effect of asset limit and effect of any curtailments or settlements. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to the plan, past service cost is recognized immediately as an expense. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed the greater of 10% of the present value of the defined benefit obligation or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the resulting asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan, net actuarial losses of the current period and past service costs of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service costs of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service costs of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service costs of the current period are recognized immediately.

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

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

Foreign Operations

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets Held for Sale

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

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

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

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

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

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

Rent income recognized in the consolidated statements of income amounted to P977, P431, P361 in 2012, 2011 and 2010, respectively.

Rent expense recognized in the consolidated statements of income amounted to P829, P553, P544 in 2012, 2011 and 2010, respectively.

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

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

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

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

Beginning July 2008, in the determination of the Group's current taxable income, the Group has an option to either apply the optional standard deduction (OSD) or continue to claim itemized standard deduction. The Group, at each taxable year from the effectivity of the law, may decide which option to apply; once an option to use OSD is made, it shall be irrevocable for that particular taxable year. For 2012, 2011 and 2010 the Group opted to continue claiming itemized standard deductions except for Petrogen, as it opted to apply OSD.

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

Estimates and Assumptions

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

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

Impairment losses on trade and other receivables amounted to P13, P75 and P481 in 2012, 2011 and 2010, respectively (Note 23). Receivables written off amounted to P1 in 2012. There were no receivables written off in 2011 (Note 9).

The carrying value of receivables, amounted to P57,731 and P26,605 as of December 31, 2012 and 2011, respectively (Note 9).

Net Selling Prices of Inventories. In determining the net selling price of inventories, management takes into account the most reliable evidence available at the times the estimates are made. Future realization of the carrying amount of inventories of P49,582 and P37,763 as at the end of 2012 and 2011, respectively (Note 10), is affected by price changes in different market segments for crude and petroleum products. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year. At the end of 2012 and 2011, the carrying amount of inventories is mostly based on cost.

There is no inventory write-down provided in 2012 and 2011.

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

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

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

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

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

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

Accumulated depreciation and amortization of property, plant and equipment and investment property amounted to P54,862 and P34,640 as of December 31, 2012 and 2011, respectively (Notes 12 and 13). Property, plant and equipment, net of accumulated depreciation and amortization amounted to P102,140 and P50,446 as of December 31, 2012 and 2011, respectively (Note 12). Investment property, net of accumulated depreciation amounted to P115 and P794 as of December 31, 2012 and 2011, respectively (Note 13).

Fair Value of Investment Property. The fair value of investment property presented for disclosure purposes is based on market values, being the estimated amount for which the property can be exchanged between a willing buyer and seller in an arm's length transaction, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair values of investment property amounted to P142 and P1,391 as of December 31, 2012 and 2011, respectively (Note 13).

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

The carrying amount of goodwill as of December 31, 2012 amounted to P10,261 (Note 14).

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

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

The Group's acquisitions have resulted in goodwill and other intangible assets with indefinite and finite lives. Total combined carrying amounts of goodwill arising from business combinations in 2012 amounted to P10,261 (Note 14).

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

Deferred tax assets amounted to P78 and P15 as of December 31, 2012 and 2011, respectively (Note 27).

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

There were no impairment losses recognized in 2012, 2011 and 2010.

The aggregate carrying amount of investments in associates, property, plant and equipment, intangible assets and investment property amounted to P104,307 and P53,754 as of December 31, 2012 and 2011, respectively (Notes 11, 12, 13 and 15).

Present Value of Defined Benefit Obligation. The present value of the retirement liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 30 to the consolidated financial statements and include discount rate, expected return on plan assets and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The assumption of the expected return on plan assets is determined on a uniform basis, taking into consideration the long-term historical returns, asset allocation and future estimates of long-term investment returns.

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

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

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

The Group has a net cumulative unrecognized actuarial gain amounting to P153 and P7,243 as of December 31, 2012 and 2011, respectively (Note 30).

Asset Retirement Obligation. The Group has an ARO arising from leased service stations, depots, blending plant, and franchised store and locator in Carmen. Determining ARO requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.29% to 10.2% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The Group also has an ARO arising from its refinery. However, such obligation is not expected to be settled for the foreseeable future and therefore a reasonable estimate of fair value cannot be determined. Thus, the ARO amounting to P997 and P1,061 as of December 31, 2012 and 2011, respectively, covers only the Group's leased service stations and depots (Note 19).

5. Assets Held for Sale

Petron has properties consisting of office units located at Petron Mega Plaza with a floor area of 21,216 square meters covering the 28th - 44th floors and 206 parking spaces amounting to P823. On December 1, 2010, BOD approved the sale of these properties to provide cash flows for various projects. Accordingly, this investment property, was presented as "Assets held for sale" in 2010. On May 2, 2011, the Parent Company sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking spaces, with a total book value of P57. In September 2011, it was reclassified back to "Investment property" account in view of the fact that the remaining floors are no longer held for sale and have already been tenanted (Note 13).

During the latter part of 2012, a prospective buyer tendered an offer to purchase the remaining Petron Mega Plaza units and parking spaces. The management made a counter offer in December 2012 effectively rendering the Petron Mega Plaza units and parking spaces, with a carrying amount of P588 as "Asset held for sale". The negotiation is on its final phase and the sale is expected to be consummated by the second quarter of 2013. Consequently, the net book value of the property amounting to P588 was reclassified to "Assets held for sale" account in the consolidated statements of financial position in 2012 (Note 13).

As of December 31, 2012, the fair market value of the Petron Mega Plaza office units and parking spaces amounted to P1,141.

The buildings for stand-alone convenience stores (Treats) and locators held by PMC with a carrying amount of P10 as of December 31, 2011 were reclassified back to "Property, plant and equipment - net" account in December 2012, in view of the fact that the remaining filling stations are no longer held for sale and have not met the qualifications to be classified as such.

6. Cash and Cash Equivalents

This account consists of:

	Note	**2012**	2011
Cash on hand		**P4,932**	P4,295
Cash in banks		**5,788**	2,633
Short-term placements		**16,245**	16,895
	34, 35	**P26,965**	P23,823

Cash in banks earn annual interest at the respective bank deposit rates. Short-term placements include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn annual interest (Note 26) at the respective short-term placement rates ranging from 0.01% to 5.00% in 2012 and 1.25% to 6.25% in 2011.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Note	**2012**	2011
Proprietary membership shares	*34, 35*	**P145**	P98
Marketable equity securities	*34, 35*	**2**	96
Derivative assets	*34, 35*	**39**	43
		P186	P237

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

Changes in fair value recognized in 2012, 2011 and 2010 amounted to (P22), P1 and P64, respectively (Note 26).

8. Available-for-Sale Financial Assets

This account consists of:

	2012	2011
Government securities	**P804**	P873
Other debt securities	**107**	163
	911	1,036
Less: current portion	**51**	-
	P860	P1,036

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Commission, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates of 6.0% to 8.875% in 2012 and 2011 (Note 26).

Ovincor's ROP9 bonds are maintained at the HSBC Bank Bermuda Limited and carried at fair value with fixed annual interest rates of 8.250% to 8.875%.

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

	Note	**2012**	2011
Due in one year or less		**P51**	P -
Due after one year through five years		**860**	1,036
	34, 35	**P911**	P1,036

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

	2012	2011
Balance at beginning of year	**P1,036**	P1,161
Additions	**-**	70
Disposals	**(45)**	(173)
Amortization of premium	**(19)**	(19)
Fair value losses	**(10)**	(1)
Currency translation adjustment	**(51)**	(2)
Balance at end of year	**P911**	P1,036

9. Trade and Other Receivables

This account consists of:

	Note	**2012**	2011
Trade	*34*	**P22,276**	P17,889
Related parties - trade	*28, 34*	**1,949**	745
Allowance for impairment loss on trade receivables		**(1,073)**	(1,084)
		23,152	17,550
Government		**27,784**	5,736
Related parties - non-trade	*28*	**4,763**	-
Others		**2,327**	3,594
Allowance for impairment loss on non-trade receivables		**(295)**	(275)
		34,579	9,055
	34, 35	**P57,731**	P26,605

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

Government receivables pertain to duty and tax claims, such as duty drawback, VAT and specific tax claims as well as subsidies receivable from the Government of Malaysia under the Automatic Pricing Mechanism. Of these receivables, P14,788 is over 30 days but less than one year. The filing and the collection of claims is a continuous process and is closely monitored.

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

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

A reconciliation of the allowance for impairment at the beginning and end of 2012 and 2011 is shown below:

	Note	**2012**	2011
Balance at beginning of year		**P1,374**	P1,305
Additions	*23*	**13**	75
Write off		**(1)**	-
Interest income on accretion		**(5)**	(6)
Acquisition of subsidiaries		**46**	-
Currency translation adjustment		**(2)**	-
Reversals		**(54)**	-
Balance at end of year		**1,371**	1,374
Less noncurrent portion for long-term receivables	*15*	**3**	15
		P1,368	P1,359

As of December 31, 2012 and 2011, the age of past due but not impaired trade accounts receivable (TAR) is as follows (Note 34):

	Past Due but not Impaired				
	Within 30 days	**31 to 60 Days**	**61 to 90 Days**	**Over 90 Days**	**Total**
December 31, 2012					
Reseller	**P115**	**P7**	**P2**	**P17**	**P141**
Lubes	**1**	**6**	**3**	**-**	**10**
Gasul	**14**	**35**	**11**	**32**	**92**
Industrial	**40**	**60**	**372**	**207**	**679**
Others	**128**	**9**	**418**	**289**	**844**
	P298	**P117**	**P806**	**P545**	**P1,766**
December 31, 2011					
Reseller	P30	P3	P2	P5	P40
Lubes	-	1	2	3	6
Gasul	13	22	68	33	136
Industrial	61	62	384	307	814
Others	4	408	144	70	626
	P108	P496	P600	P418	P1,622

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

10. Inventories

This account consists of:

	2012	2011
Crude oil and others	**P22,182**	P19,322
Petroleum	**25,955**	17,378
TBA products, materials and supplies:		
Materials and supplies	**1,418**	1,033
TBA	**27**	30
	P49,582	P37,763

The cost of these inventories amounted to P49,969 and P38,150 as at December 31, 2012 and 2011, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other products would have decreased by P921 and P379 as of December 31, 2012 and 2011, respectively.

Research and development costs (Note 23) on these products constituted the expenses incurred for internal projects in 2012 and 2011.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P398,102, P244,937 and P203,767 in 2012, 2011 and 2010, respectively (Note 22).

The allowance for decline in the values of inventories with outstanding balance of P387 has no movement for the years 2012 and 2011.

11. Investments in Associates

This account consists of:

	2012	2011
Acquisition Cost:		
Balance at beginning of year	**P2,796**	P958
Additions	**507**	1,838
Reclassifications	**(1,360)**	-
Balance at end of year	**1,943**	2,796
Share in Net Losses:		
Balance at beginning of year	**(291)**	(154)
Share in net losses during the year	**(11)**	(137)
Balance at end of year	**(302)**	(291)
	P1,641	P2,505

Investments in associates pertain to investments in the following entities:

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

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

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

On December 31, 2012, PAHL issued to the Parent Company 135,652,173 ordinary B shares which increased the Parent Company's ownership in PAHL to 46%.

PAHL commenced operation in the first quarter of 2011.

As of December 31, 2012 and 2011, cost of investment in PAHL amounted to P1,238 and P745 respectively.

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

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

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

As of December 31, 2011, cost of investment in LEC amounted to P1,360.

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

As of December 31, 2012 and 2011, the cost of investment in MNHPI amounted to P705 and P691, respectively.

Following are the unaudited condensed and combined financial information of PAHL and MNHPI in 2012 and PAHL, LEC and MNHPI in 2011:

	2012	2011
Total assets	**P12,281**	P12,616
Total liabilities	**9,766**	7,183
Net income (loss)	**26**	(422)

12. Property, Plant and Equipment

This account consists of:

	Buildings and Related Facilities	Refinery and Plant Equipment	Service Stations and Other Equipment	Computers, Office and Motor Equipment	Land and Leasehold Improvements	Construction In-progress	Total
Cost:							
December 31, 2010	P13,871	P37,292	P5,353	P2,145	P4,526	P2,796	P65,983
Additions	555	524	831	1,002	526	17,904	21,342
Disposals/reclassifications	(251)	(6)	(115)	(77)	473	(2,532)	(2,508)
December 31, 2011	14,175	37,810	6,069	3,070	5,525	18,168	84,817
Additions	57	57	61	316	461	40,896	41,848
Disposals/reclassifications/ acquisition of subsidiaries	8,377	11,356	8,446	793	4,146	(1,463)	31,655
Currency translation adjustment	(337)	(480)	(300)	(37)	(164)	(10)	(1,328)
December 31, 2012	**22,272**	**48,743**	**14,276**	**4,142**	**9,968**	**57,591**	**156,992**
Accumulated depreciation and amortization:							
December 31, 2010	7,621	16,552	3,756	1,728	1,369	-	31,026
Additions	721	2,027	504	219	93	-	3,564
Disposals/reclassifications	(113)	(1)	(38)	(67)	-	-	(219)
December 31, 2011	8,229	18,578	4,222	1,880	1,462	-	34,371
Additions	1,024	2,336	977	296	57	-	4,690
Disposals/reclassifications/ acquisition of subsidiaries	4,271	7,510	4,131	601	(4)	-	16,509
Currency translation adjustment	(181)	(329)	(178)	(30)	-	-	(718)
December 31, 2012	**13,343**	**28,095**	**9,152**	**2,747**	**1,515**	**-**	**54,852**
Net book value:							
December 31, 2011	P5,946	P19,232	P1,847	P1,190	P4,063	P18,168	P50,446
December 31, 2012	**P8,929**	**P20,648**	**P5,124**	**P1,395**	**P8,453**	**P57,591**	**P102,140**

Interest capitalized in 2012 and 2011 amounted to P886 and P198, respectively. Capitalization rate used for general borrowings (both short and long-term loans) was at 5.71% and 6.76% in 2012 and 2011, respectively (Note 18).

No impairment loss was required to be recognized in 2012 and 2011.

Capital Commitments

As of December 31, 2012, the Group has outstanding commitments to acquire property, plant and equipment amounting to P13,542.

13. Investment Property

The movements and balances as of December 31 follow:

	Note	Land	Office Units	Total
Cost:				
December 31, 2010		P100	P28	P128
Reclassifications	*5*	-	1,005	1,005
Disposals		-	(70)	(70)
December 31, 2011		100	963	1,063
Reclassifications	*5*	-	(938)	(938)
December 31, 2012		**100**	**25**	**125**
Accumulated depreciation:				
December 31, 2010		-	9	9
Additions		-	91	91
Reclassifications	*5*	-	182	182
Disposals		-	(13)	(13)
December 31, 2011		-	269	269
Additions		-	91	91
Reclassifications	*5*	-	(350)	(350)
December 31, 2012		-	**10**	**10**
Net book value:				
December 31, 2011		P100	P694	P794
December 31, 2012		**P100**	**P15**	**P115**

The Group’s investment property consists of office units located at Petron Mega Plaza (classified as “Assets held for sale” in 2010 and 2012) (Note 5), property located in Tagaytay and parcels of land in various locations.

Estimated fair values for the office units, including the parking slots amounted to P1,271 on December 31, 2011.

Estimated fair value of Tagaytay property based on the most recent appraisal made amounted to P22 as at December 31, 2012.

The Group’s parcels of land are located in Metro Manila and some major provinces. As of December 31, 2012 and 2011, the aggregate fair market value of the properties amounted to P120, determined by independent appraisers, is higher than their carrying values, considering recent market transactions and specific conditions related to the parcels of land as determined by NVRC.

Rent income earned from office units amounted to P85, P58 and P16 in 2012, 2011 and 2010, respectively.

14. Acquisition of Subsidiaries

a. *PGL*

On February 24, 2012, Petron acquired PGL, a company incorporated in the British Virgin Islands. PGL has issued an aggregate of 31,171,180 common shares with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares series B at an issue price equal to the par value of each share of US$1.00 to a third party investor.

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

On March 30, 2012, the Parent Company's indirect offshore subsidiary, POGI, completed the acquisition of 65% of Esso Malaysia Berhad (EMB), and 100% of ExxonMobil Malaysia Sdn Bhd (EMMSB) and ExxonMobil Borneo Sdn Bhd (EMBSB) for an aggregate purchase price of US$577.3 million. POGI also served the notice of Mandatory General Offer (MGO) to acquire the remaining 94,500,000 shares representing 35% of the total voting shares of EMB for RM3.59 per share from the public. The Unconditional Mandatory Take-Over Offer was closed on May 14, 2012. As a result of the MGO, POGI acquired an additional 22,679,063 shares from the public and increased its interest in EMB to 73.4%.

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

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

Assets	
Cash and cash equivalents	**P5,633**
Trade and other receivables - net	**12,811**
Inventories	**13,160**
Prepaid expenses and other current assets	**307**
Property, plant and equipment - net	**14,930**
Deferred tax assets	**36**
Other noncurrent assets - net	**6,488**
Liabilities	
Short - term loans	**(4,195)**
Liabilities for crude oil and petroleum product importation	**(16,360)**
Trade and other payables	**(1,934)**
Income tax payable	**(64)**
Long-term debt	**(10,123)**
Deferred tax liabilities	**(1,116)**
Other noncurrent liabilities	**(700)**
Total Identifiable Net Assets at Fair Value	**P18,873**

The Group is currently completing the purchase price allocation exercise on the acquisition of the above companies. The identifiable net assets at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, *Business Combination*, within 12 months from the acquisition date.

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

Total cash consideration transferred	**P25,928**
Non-controlling interest measured at proportionate interest in identifiable net assets	**3,584**
Total identifiable net assets at fair value	**(18,873)**
Goodwill	**P10,639**

Movement of goodwill are as follows:

Goodwill at acquisition date	**P10,639**
Translation adjustments	**(439)**
Goodwill at end of period	**P10,200**

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

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

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

	2012
Asset	
Property and equipment - net	**P117**
Liabilities	
Trade and other payables	**(5)**
Total Identifiable Net Asset at Fair Value	**P112**

The Group is currently completing the purchase price allocation exercise on the acquisition of PEDC. The identifiable net asset at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

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

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

d. *LEC*

On August 3, 2010, the Parent Company together with Two San Isidro SIAI Assets, Inc. (Two San Isidro), formed LEC with an authorized capital stock of P3,400. Out of its authorized capitalization, P850 was subscribed, of which P213 was paid up. The Group then owned 40% of LEC, while Two San Isidro owned the remaining 60%. In 2011, the Parent Company infused P1,147 to LEC to fully pay its 40% equity share.

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

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

LEC was formed to build operate and maintain a cogeneration power plant that will engage in the generation of power and steam for the primary purpose of supplying the steam and power requirements of the Petron Bataan Refinery.

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

	2012
Assets	
Cash and cash equivalents	**P3,514**
Trade and other receivables - net	**2**
Prepaid expenses and other current assets	**39**
Other noncurrent assets - net	**35**
Liabilities	
Trade and other payables	**(154)**
Total Identifiable Net Assets at Fair Value	**P3,436**

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

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

e. Mariveles Landco Corporation (MLC)

On July 26, 2012, NVRC entered into an agreement for the acquisition of 60% of the outstanding capital stock of MLC for a total consideration of P30.

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

	2012
Assets	
Trade and other receivables - net	**P10**
Prepaid expenses and other current assets	**2**
Property and equipment - net	**64**
Liabilities	
Trade and other payables	**(58)**
Long-term debt	**(36)**
Total Identifiable Net Liabilities at Fair Value	**(P18)**

The Group is currently completing the purchase price allocation exercise on the acquisition of MLC. The identifiable net assets at fair value are based on provisionary amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

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

Total cash consideration and liability assumed	**P30**
Non-controlling interest measured at proportionate interest in identifiable net liabilities	**(7)**
Total identifiable net liabilities at fair value	**18**
Goodwill	**P41**

15. Other Assets

This account consists of:

	Note	**2012**	2011
Current:			
Input VAT		**P7,134**	P6,694
Prepaid expenses		**3,558**	1,360
Special-purpose fund		**44**	41
Others		**14**	83
		P10,750	P8,178
Noncurrent:			
Due from related parties	*28, 34, 35*	**P10,788**	P23,787
Catalyst		**145**	216
Prepaid rent		**5,175**	25
Long-term receivables - net	*34, 35*	**72**	88
Others - net		**2,072**	267
		P18,252	P24,383

The "Noncurrent assets - others" account includes software, marketing assistance to dealers and franchise fees amounting to P1,010 and P9 in 2012 and 2011, respectively, net of amortization of software, marketing assistance to dealers and franchise fees amounting to P148 and P2 in 2012 and 2011, respectively. The amortization of prepaid rent amounted to P184 in 2012. Amortization of software, marketing assistance to dealers, franchise fees and prepaid rent is included as part of "Selling and administrative - depreciation and amortization" account in the consolidated statements of income (Notes 23 and 25).

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

16. Short-term Loans

This account pertains to unsecured peso, US dollar and Malaysian Ringgit loans obtained from various banks with maturities ranging from 4 to 180 days and annual interest ranging from 1.38% to 6.00% (Note 26). These loans are intended to fund the importation of crude oil and petroleum products (Note 10) and working capital requirements.

Short-term loans of the Group are not subject to covenants and warranties.

17. Trade and Other Payables

This account consists of:

	Note	**2012**	2011
Trade	*34, 35*	**P9,788**	P3,267
Accrued rent	*34, 35*	**768**	693
Related parties	*28, 34, 35*	**657**	652
Specific taxes and other taxes payable		**667**	781
Sales container and fob deposits	*34, 35*	**651**	-
Accrued interest	*34, 35*	**447**	513
Dividends payable	*34, 35*	**455**	438
Insurance liabilities	*34, 35*	**315**	132
Retirement benefits liability	*30*	**91**	-
Accrued payroll	*34, 35*	**58**	37
Others	*34, 35*	**970**	868
		P14,867	P7,381

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

Others include provisions, retention payable and accruals of selling and administrative expenses which are normally settled within a year.

18. Long-term Debt

This account consists of:

	Note	**2012**	2011
Unsecured Peso denominated (net of debt issue cost):			
Fixed rate corporate notes of 7% in 2010 to 2017	*(d)*	**P19,830**	P19,803
Fixed rate corporate notes of 8.14% and 9.33%	*(b)*	**9,810**	9,840
Fixed rate corporate notes of 6.3212% and 7.1827%	*(g)*	**3,530**	3,563
Floating rate peso loan based on PDST-F and SDA rates	*(e)*	**-**	1,200
Fixed rate peso loans of 6.73%	*(a)*	**-**	154
Unsecured Foreign currency denominated (net of debt issue cost):			
Floating rate dollar loan	*(f)*	**11,922**	3,419
Floating rate dollar loan	*(h)*	**10,921**	-
Floating rate dollar loan based on LIBOR rate + 2.15%	*(c)*	**-**	11,889
	34, 35	**56,013**	49,868
Less current portion		**73**	4,124
		P55,940	P45,744

a. On January 31, 2007, the Parent Company entered into a Club loan agreement with Metropolitan Bank and Trust Company and Citibank amounting to P1,000 each. The loan bears interest of 6.73% (gross of 5% tax) per annum payable in 13 quarterly installments starting January 2009 up to 2012. In December 2007, Citibank assigned P900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	**Amount**
MayBank Phils.	P500
Mega International Commercial Bank of China	300
Robinsons Bank	100
	P900

In May 2008, Citibank assigned its remaining P100 interest to Insular Life Assurance Co. Ltd. The loan was fully paid on January 31, 2012.

b. On June 5, 2009, the Parent Company issued P5,200 and P4,800 or a total of P10,000 Fixed Rate Corporate Notes. The P5,200 five-year Notes bear a fixed rate of 8.14% per annum with a one-time payment of principal in June 2014. On the other hand, the P4,800 seven-year Notes bear a fixed rate of 9.33% per annum with 6 principal payments of P48 per year commencing June 2010 and a one-time payment of P4,512 in June 2016.

c. On June 7, 2010, the Parent Company entered into a five-year term facility agreement with Norddeutsche Landesbank Girozentrale, Singapore Branch amounting to US$355. Floating interest rate for the loan is 1, 3 or 6-month LIBOR plus a spread of 2.15%. Principal repayment is in 9 equal semi-annual installments of US$39 beginning June 1, 2011. The loan was used for general corporate purposes and refinancing of peso-denominated debts. The loan was fully-paid on June 1, 2012.

d. On November 10, 2010, the Parent Company issued a P20,000 Peso-denominated Notes, payable in US dollar. The notes bear interest of 7% per annum, payable semi-annually in arrears on May 10 and November 10 of each year. The notes will mature on November 10, 2017. The principal and interest will be translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment.

e. On December 14, 2010, the Parent Company entered into a three-year term facility agreement with the Development Bank of the Philippines amounting to P1,800. The loan is subject to quarterly repricing and the principal amount is amortized in twelve quarterly installments of P150 starting March 2011. The loan was obtained to finance the Parent Company's general corporate requirements. The loan was fully-paid on June 14, 2012.

f. On September 30, 2011, the Parent Company signed and executed a US$480 term loan facility. The facility is amortized over 5 years with a 2-year grace period and is subject to a floating interest rate plus a fixed spread. The loan proceeds will be used to finance the capital expenditure requirements of Refinery Master Plan Phase 2 (RMP-2). The first drawdown of US$80 was made on November 25, 2011 while the balance of US$400 was drawn on February 15, 2012. A partial payment of US$180 was made on June 29, 2012.

g. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling P3,600 on October 25, 2011. The FXCN consisted of Series A Notes amounting to P690 having a maturity of 7 years from issue date and Series B notes amounting to P2,910 having a maturity of 10 years from issue date. The Notes are subject to fixed interest coupons of 6.3212% per annum for the Series A notes and 7.1827% per annum for the Series B notes. The net proceeds from the issuance were used for general corporate requirements.

h. On October 31, 2012, the Parent Company signed a five-year term loan facility amounting to US$485 with a syndicate of nine banks. The proceeds will be used partly to finance the capital expenditure requirements of RMP-2. Amortization in seven equal amounts will start in November 2014, with final amortization due in November 2017. An initial drawdown of US$100 was made on November 9, 2012. Subsequent drawdowns of US$35 and US$140 were made in December 2012. The remaining balance of US$210 was drawn in the first quarter of 2013.

The above mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on guarantees, and payments of dividends.

As of December 31, 2012 and 2011, Petron complied with the covenants of its debt agreements.

Total interest incurred on the above-mentioned long-term loans amounted to P3,024, P3,407 and P2,164 for the years ended 2012, 2011 and 2010, respectively (Note 26). Capitalized interest in 2012 and 2011 amounted to P886 and P198, respectively (Note 12).

Movements in debt issue costs follow:

	Note	**2012**	2011
Beginning balance		**P602**	P648
Additions		**899**	128
Amortization for the year	*26*	**(491)**	(174)
Ending balance		**P1,010**	P602

Repayment Schedule

As of December 31, 2012 and 2011, the annual maturities of long-term debt are as follows:

2012

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

2011

Year	Gross Amount	Debt Issue Costs	Net
2012	P4,296	P172	P4,124
2013	4,531	147	4,384
2014	9,930	109	9,821
2015	2,748	68	2,680
2016	5,545	87	5,458
2017 and beyond	23,420	19	23,401
	P50,470	P602	P49,868

19. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	**2012**	2011
Beginning balance		**P1,061**	P815
Additions		**5**	62
Effect of change in discount rate		**(66)**	130
Effect of change in lease term		**(3)**	10
Accretion for the year	*26*	**83**	71
Gain on settlement	*26*	**(83)**	(27)
Ending balance		**P997**	P1,061

20. Other Noncurrent Liabilities

	Note	**2012**	2011
Payable to a contractor		**P1,787**	P -
Cash bonds		**360**	303
Cylinder deposits		**213**	383
Related party	*28*	**28**	-
Others		**47**	54
	34,35	**P2,435**	P740

21. Equity

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

On October 21, 2009, the BOD approved the amendment of the Company's articles of incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with a par value of P1.00 per share, and the amendment to deny the stockholders' pre-emptive rights on the issuance of preferred shares. By written assent, majority of the stockholders voted for the amendment of the reclassification of unissued common shares to preferred shares and the denial of pre-emptive rights.

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

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

b. Capital Stock

Common Stock

Pursuant to the registration statement rendered effective by the SEC on May 18, 1995 and permit to sell issued by the SEC dated May 30, 1995, 10,000,000,000 common shares of Petron were registered and may be offered for sale at an offer price of P1.00 per common share. As of December 31, 2012 and 2011, Petron has 157,465 and 160,482 stockholders, respectively and a total of 9,375,104,497 (P1 par value) issued and outstanding common shares.

Preferred Stock
As of December 31, 2012 and 2011, Petron has 100,000,000 (P1 par value) issued and outstanding preferred shares.

The preferred shares were issued upon listing on the PSE at P100 per share. The proceeds from issuance in excess of par value less related transaction costs amounted to P9,764 which were recognized as additional paid-in capital.

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

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

The total number of preferred shareholders with at least one board lot at the PSE as of December 31, 2012 and 2011 is 123 and 122, respectively.

c. Retained Earnings

i. Declaration of Cash Dividends

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

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

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

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

On April 29, 2010, the BOD approved a cash dividend of P2.382 per share which was paid to preferred stockholders on June 7, 2010. Another cash dividend of P2.382 per share was paid on September 16, 2010 to preferred stockholders as of August 10, 2010 record date. Finally, stockholders holding preferred shares as of November 16, 2010 were also paid a cash dividend of P2.382 per share on December 6, 2010.

ii. Appropriation for Capital Projects

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

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

The BOD of certain subsidiaries approved additional appropriation amounting to P51 in 2010 to finance future capital expenditure projects.

The appropriated retained earnings as of December 31, 2012 amounting to P25,171 is for the Parent Company's RMP-2 project and expansion projects of subsidiaries which are expected to be completed in 2013 to 2015.

d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to P2,866, P2,482 and P2,208 in 2012, 2011 and 2010, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

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

22. Cost of Goods Sold

This account consists of:

	Note	**2012**	2011	2010
Inventories	*10*	**P398,102**	P244,937	P203,767
Depreciation and amortization	*25*	**2,471**	2,207	2,282
Personnel expenses	*24*	**1,006**	684	555
Others	*31*	**4,397**	2,998	2,676
		P405,976	P250,826	P209,280

Distribution or transshipment costs included as part of inventories amounted to P8,155, P4,439 and P4,161 in 2012, 2011 and 2010, respectively.

23. Selling and Administrative Expenses

This account consists of:

	Note	**2012**	2011	2010
Personnel expenses	*24*	**P1,535**	P2,499	P1,972
Purchased services and utilities		**2,113**	1,464	1,311
Depreciation and amortization	*15, 25*	**2,642**	1,450	1,258
Maintenance and repairs		**1,238**	700	551
Rent	*29, 31*	**(148)**	122	183
Impairment loss on trade and other receivables	*4, 9*	**13**	75	481
Materials and office supplies		**425**	562	397
Advertising		**1,052**	545	222
Taxes and licenses		**262**	181	205
Others	*10*	**294**	267	362
		P9,426	P7,865	P6,942

Selling and administrative expenses include research and development costs amounting to P50, P42 and P43 in 2012, 2011 and 2010, respectively. Rent is shown net of rental income amounting to P977, P431 and P361 in 2012, 2011 and 2010, respectively.

24. Personnel Expenses

This account consists of:

	Note	**2012**	2011	2010
Salaries, wages and other employee costs	*28*	**P3,027**	P2,705	P2,274
Retirement costs (income) - defined benefit plan	*28, 30*	**(550)**	422	197
Retirement costs - defined contribution plan	*28*	**64**	56	56
		P2,541	P3,183	P2,527

The above amounts are distributed as follows:

	Note	**2012**	2011	2010
Costs of goods sold	*22*	**P1,006**	P684	P555
Selling and administrative expenses	*23*	**1,535**	2,499	1,972
		P2,541	P3,183	P2,527

25. Depreciation and Amortization

This account consists of:

	Note	**2012**	2011	2010
Cost of goods sold				
Property, plant and equipment	*12, 22*	**P2,471**	P2,207	P2,282
Selling and administrative expenses				
Property, plant and equipment	*12*	**2,219**	1,357	1,201
Investment property	*13*	**91**	91	55
Intangible assets and others	*15*	**332**	2	2
	23	**2,642**	1,450	1,258
		P5,113	P3,657	P3,540

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

This account consists of:

	Note	**2012**	2011	2010
Interest expense and other financing charges:				
Long-term debt	*18*	**P2,533**	P3,233	P2,052
Short-term loans	*16*	**3,044**	1,185	1,368
Bank charges		**1,351**	454	673
Amortization of debt issue costs	*18*	**491**	174	112
Accretion on ARO	*19*	**83**	71	46
Product borrowings		**-**	1	-
Others		**6**	6	46
		P7,508	P5,124	P4,297
Interest income:				
Advances to related parties	*15, 28*	**P580**	P927	P471
Short-term placements	*6*	**345**	330	237
AFS financial assets	*8*	**20**	35	50
Trade receivables		**101**	76	46
Product loaning		**2**	-	2
Cash in banks	*6*	**58**	6	5
Others		**15**	6	16
		P1,121	P1,380	P827

Forward

	Note	**2012**	2011	2010
Other income (expenses):				
Foreign currency gains (losses) - net	*34*	**P1,270**	(P88)	P1,742
Marked-to-market gains (losses)	*35*	**(845)**	205	(98)
Insurance claims		**119**	177	118
Changes in fair value of financial assets at FVPL	*7*	**(22)**	1	64
Gain on settlement of ARO	*19*	**83**	27	18
Hedging gains (losses) - net		**(773)**	(591)	13
Others		**123**	6	(809)
		(P45)	(P263)	P1,048

The Parent Company recognized its share in the net income of PDSI amounting P0.67, P0.53 and P0.35 in 2012, 2011 and 2010, respectively, and recorded it as part of "Other income (expenses) - Others" account.

27. Income Taxes

Deferred tax assets and liabilities are from the following:

	2012	2011
Various allowance, accruals and others	**P574**	P840
Rental	**174**	178
ARO	**210**	192
Net retirement benefits liability	**57**	201
MCIT	**301**	2
NOLCO	**597**	-
Excess of double-declining over straight-line method of depreciation and amortization	**(3,207)**	(1,820)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(1,097)**	(830)
Inventory differential	**(326)**	(114)
Capitalized taxes and duties on inventories deducted in advance	**(104)**	(226)
Unrealized foreign exchange gains - net	**(141)**	(218)
Unrealized fair value gains on AFS financial assets	**(5)**	(9)
	(P2,967)	(P1,804)

The NOLCO is available for offsetting against future taxable income in the next three consecutive years from the year of incurrence. On the other hand, the MCIT may be credited against regular corporate income tax liabilities in the next three consecutive years from the year of payment.

The NOLCO and MCIT incurred in 2012 amounting to P1,990 and P301, respectively, will expire in 2015.

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

	2012	2011
Deferred tax assets	**P78**	P15
Deferred tax liabilities	**(3,045)**	(1,819)
	(P2,967)	(P1,804)

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

The components of income tax expense are shown below:

	2012	2011	2010
Current	**P546**	P2,784	P820
Deferred	**127**	(148)	1,555
	P673	P2,636	P2,375

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

	Note	**2012**	2011	2010
Statutory income tax rate		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to Income Tax Holiday (ITH)	*36*	**(2.78%)**	(4.76%)	(6.40%)
Interest income subjected to lower final tax and others		**(3.43%)**	(1.20%)	(0.26%)
Nontaxable income		**(6.44%)**	(0.71%)	(0.33%)
Nondeductible expense		**4.31%**	0.14%	0.05%
Nondeductible interest expense		**1.22%**	0.28%	0.23%
Changes in fair value of financial assets at FVPL	*26*	**0.22%**	-	(0.18%)
Excess of optional standard deduction over deductible expenses		**(0.29%)**	(0.05%)	(0.05%)
Effective income tax rate		**22.81%**	23.70%	23.06%

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. Petrogen opted to apply OSD in 2012 and 2011.

28. Related Party Disclosures

The Parent Company, subsidiaries, associates, joint ventures, SMC and its subsidiaries in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Retirement plan	**2012**	**P557**	**P -**	**P15,517**	**P -**	On demand/	Unsecured;
(Notes 9, 15, 30, a)	2011	420	-	24,728	-	long-term;	No impairment
	2010	899	-	22,435	-	Interest bearing	
Ultimate Parent (e)	**2012**	**5**	**87**	**7**	**20**	On demand;	Unsecured;
	2011	1	76	111	20	Non-interest	No impairment
	2010	1	29	2	33	bearing	
Under common control	**2012**	**13,680**	**2,106**	**1,971**	**612**	On demand;	Unsecured;
(b, c, d)	2011	4,840	2,467	634	632	Non-interest	No impairment
	2010	10,511	746	1,777	57	bearing	
Associates (b)	**2012**	**78**	**-**	**17**	**28**	On demand; Non-interest bearing	Unsecured; No impairment
Joint venture (c)	**2012**	**-**	**45**	**18**	**25**	On demand; Non-interest bearing	Unsecured; No impairment
	2012	**P14,320**	**P2,238**	**P17,530**	**P685**		
	2011	P5,261	P2,543	P25,473	P652		
	2010	P11,411	P775	P24,214	P90		

a. As of December 31, 2012 and 2011, the Parent Company has interest bearing advances to PCERP, included as part of "Other receivables" and "Other noncurrent assets" account in the consolidated statements of financial position, for some investment opportunities (Notes 9, 15 and 30).

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

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

d. Petron entered into a lease agreement with San Miguel Properties, Inc. (SMPI) for its office space covering 6,759 square meters with a monthly rate of P4.7. The lease, which commenced on June 1, 2012, is for a period of one year and may be renewed in accordance with the written agreement of the parties.

e. The Parent Company also pays SMC for its share in common expenses such as utilities and management fees.

f. Amounts owed by related parties consist of trade, non-trade receivables, advances and security deposits.

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

h. The compensation of key management personnel of the Group, by benefit type, follows:

	2012	2011	2010
Salaries and other short-term employee benefits	**P568**	P459	P328
Retirement benefits - defined contribution plan	**14**	12	11
Retirement benefits - defined benefit plan	**54**	17	399
	P636	P488	P738

29. Operating Lease Commitments

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

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

	2012	2011	2010
Within one year	**P913**	P657	P738
After one year but not more than five years	**2,998**	2,423	2,661
After five years	**6,861**	6,730	8,741
	P10,772	P9,810	P12,140

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Notes 13 and 26). The non-cancellable leases have remaining terms of between three to fourteen years. All leases include a clause to enable upward escalation adjustment of the annual rental rates.

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

	2012	2011	2010
Within one year	**P298**	P279	P327
After one year but not more than five years	**344**	262	523
After five years	**69**	45	52
	P711	P586	P902

30. Retirement Plan

The succeeding tables summarize the components of net retirement benefits cost (income) under a defined benefit retirement plan recognized in profit or loss and the funding status and amounts of retirement plan recognized in the consolidated statements of financial position. Contributions and costs are determined in accordance with the actuarial studies made for the plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2012. Valuations are obtained on a periodic basis.

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

The components of retirement benefits cost (income) recognized in profit or loss in 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Current service cost	**P210**	P163	P165
Interest cost on benefit obligation	**267**	281	276
Expected return on plan assets	**(741)**	(2,181)	(312)
Curtailment loss (gain)	**(1)**	-	75
Amortization of actuarial gain	**(285)**	2,159	(7)
Net retirement benefits cost (income)	**(P550)**	P422	P197

The retirement benefits cost (income) is recognized as part of personnel expenses in the consolidated statements of income.

The reconciliation of the retirement benefits liability recognized in the consolidated statements of financial position is as follows:

	Note	**2012**	2011
Present value of defined benefit obligation		**P5,671**	P3,633
Fair value of plan assets		**5,020**	10,205
Deficiency (Excess) in the plan		**651**	(6,572)
Unrecognized actuarial gain		**153**	7,243
Net retirement benefits liability recognized		**804**	P671
Less current portion	*17*	**91**	-
Retirement benefits liability - noncurrent portion		**P713**	P671

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

	2012	2011
Balance at beginning of year	**P3,633**	P3,559
Acquisition of a subsidiary	**928**	-
Interest cost	**267**	281
Current service cost	**210**	163
Benefits paid	**(207)**	(184)
Actuarial loss (gain) on obligation	**853**	(186)
Effect of curtailment	**(2)**	-
Transfer from other plans	**28**	-
Currency translation adjustment	**(39)**	-
Balance at end of year	**P5,671**	P3,633

Changes in the fair value of plan assets are as follows:

	2012	2011
Balance at beginning of year	**P10,205**	P25,163
Expected return on plan assets	**741**	2,181
Benefits paid	**(169)**	(184)
Actuarial loss	**(5,785)**	(16,955)
Transfer from other plans	**28**	-
Balance at end of year	**P5,020**	P10,205
Actual loss on plan assets	**(P5,044)**	(P14,774)

Plan assets consist of the following:

	2012	2011
Shares of stock	**84%**	93%
Government securities	**6%**	4%
Cash	**6%**	1%
Others	**4%**	2%
	100%	100%

Investment in Shares of Stock

As of December 31, 2012, the Parent Company’s plan assets include 1,386,156,097 common shares of Petron with fair market value per share of P10.46.

As of December 31, 2012, the Parent Company’s plan assets include 2,000,000 Series “2”, Subseries “A” and 2,000,000 Series “2”, Subseries “B” preferred shares of Petron with fair market value per share of P74.95 and P75, respectively.

As of December 31, 2012, the Parent Company’s plan assets include investment in Petron bonds amounting to P129.

The plan recognized a loss on the investment in marketable securities and bonds of the Parent Company and SMC amounting to P4,527 in 2012.

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

Investment in shares of stock also includes investment in the common shares of PAHL, accounted for under the equity method.

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

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

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

Investment in Trust Account

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

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

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

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

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

	2012	2011	2010
Discount rate	**5.00% - 6.30%**	6.17% - 7.09%	7.90% - 9.57%
Expected rate of return on plan assets	**9.00%**	9.00%	8.70%
Future salary increases	**7.00% - 8.00%**	7.00% - 8.00%	8.00%

The historical information for the current and previous four annual periods is as follows:

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	**P5,671**	P3,633	P3,559	P3,446	P3,534
Fair value of plan assets	**5,020**	10,205	25,163	3,896	3,832
Deficiency (Excess) in the plan	**651**	(6,572)	(21,604)	(450)	(298)
Experience adjustments on plan liabilities	**(318)**	72	143	70	(240)

The Parent Company has advances to PCERP amounting to P15,517 and P24,728 as of December 31, 2012 and 2011, respectively, included as part of "Other receivables" and "Other noncurrent assets" account in the separate statements of financial position (Notes 9 and 15). The advances are subject to interest of 4% in 2012 and 2011 (Note 28).

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2012 and 2011 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Parent Company has not made any provision for impairment losses relating to the receivables from retirement plan for the years ended December 31, 2012, 2011, and 2010.

31. Significant Agreements

Supply Agreement
The Parent Company has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company ("Saudi Aramco"), based on the latter's standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of "Liabilities for crude oil and petroleum product importation" account in the consolidated statements of financial position as of December 31, 2012 and 2011. The contract is extended until October 27, 2013.

Petron Malaysia has a service level agreement with Concord Energy Ltd (Concord Energy). Under this agreement, effective until March 31, 2013, Concord Energy shall act as Petron Malaysia's commercial trader in relation to all spot & term transactions for the import & export of Crude Oil and Refined Petroleum Products. This shall exclude domestic sale and purchase. This covers the monthly purchase of Tapis Blend Crude Oil & Terengganu Condensate from ExxonMobil Exploration and Production Malaysia.

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

As of December 31, 2012, the following are the fuel supply contracts granted to the Parent Company:

NPC

Bid Date	Date of Award	Contract Duration	DFO* (in KL*)	IFO* (in KL)	ELO* (in KL)	DFO Total Contract Price (Php)	IFO Total Contract Price (Php)	ELO Total Contract Price (Php)
Dec. 29, 2011	Jan 11, 2012	(Calayan DP & others) January - December 2012	39,000	21,335		1,682	758	
Dec. 29, 2011	July 4, 2012	Repeat Order for CY 2012 Contract (July - December 2012)	5,783			258		
Dec. 29, 2011	Feb. 29, 2012	(Calapan Modular and Jolo) January - December 2012	23,708			1,032		
Apr. 19, 2012	May 10, 2012	NPC Engine Lubricating Oil 2012 (May - December 2012)			747			74
Nov. 13, 2012	Dec 5, 2012	NPC Additional Contract 2012 (November - December 2012)	12,888			545		

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

PSALM

Bid Date	Date of Award	Contract Duration	DFO* (in KL*)	IFO* (in KL)	ELO* (in KL)	DFO Total Contract Price (Php)	IFO Total Contract Price (Php)	ELO Total Contract Price (Php)
Feb. 21, 2012	Mar. 9, 2012	Power Barge 101 March - December 2012		5,950			205	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 102 March - December 2012		6,830			236	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 103 March - December 2012		5,960			208	
Feb. 21, 2012	Mar. 9, 2012	Power Barge 104 March - December 2012		18,550			643	
Feb. 21, 2012	Mar. 9, 2012	Southern Power Philippines Corporation March - December 2012		55,600			1,907	
May 28, 2012	June 20, 2012	Naga TPP Conplex June - December 2012	570			25		
May 28, 2012	June 20, 2012	Power Barge 101 June - December 2012	360			16		
May 28, 2012	June 20, 2012	Power Barge 102 June - December 2012	480			21		
May 28, 2012	June 20, 2012	Power Barge 103 June - December 2012	480			22		
May 28, 2012	June 20, 2012	Power Barge 104 June - December 2012	830			36		
May 28, 2012	June 20, 2012	Western Mindanao Power Corporation June - December 2012	60			3		
Oct. 10, 2012	Oct. 24, 2012	Power Barge 101 Engine Lubricating Oil (October - December 2012)			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 102 Engine Lubricating Oil (October - December 2012)			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 103 Engine Lubricating Oil (October - December 2012)			120			12
Oct. 10, 2012	Oct. 24, 2012	Power Barge 104 Engine Lubricating Oil (October - December 2012)			160			16
Oct. 30, 2012	Dec. 4, 2012	PSALM - Southern Power Philippines Corporation December 2012		29,000			969	

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

In the bidding for the Supply & Delivery of Oil-Based Fuel to NPC, PSALM, IPPs and Small Power Utilities Group (SPUG) Plants/Barges for the year 2012, Petron was awarded to supply a total of 84,159 kilo-liters (KL) worth P3,640 (2011-56,278 KL worth P2,207) of diesel fuel; 143,225 KL worth P4,926 (2011-145,934 KL worth P4,655) of bunker fuel and 1,267 KL worth of P126 of engine lubricating oil.

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

PFC will provide the tolling services which include storage, blending, filing and logistics management. In consideration of these services, Innospec will pay PFC a service fee based on the total volume of products blended at PFC Fuel Additives Blending facility.

Tolling services started in 2008 on which PFC recognized revenue amounting to P33, P35 and P40 in 2012, 2011 and 2010, respectively.

Hungry Juan Outlet Development Agreement with San Miguel Foods, Inc. PFC entered into an agreement with SMFI for a period of three years and paid a one-time franchise fee. The store, which started operating in November 2012, is located at Rizal Blvd. cor. Argonaut Highway, Subic Bay Freeport Zone.

Lease Agreement with Philippine National Oil Company (PNOC). On September 30, 2009, NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use for refinery, commencing January 1, 2010 and ending on December 31, 2039. The annual rental shall be P93 payable on the 15th day of January each year without the necessity of demand. This non-cancelable lease is subject to renewal options and annual escalation clauses of 3% per annum up to 2011. The leased premises shall be reappraised starting 2012 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the appraisal. Reappraisal of leased premises for 2012 is on-going. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2012 and 2011, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

32. Basic and Diluted Earnings Per Share

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

	2012	2011	2010
Net income attributable to equity holders of the Parent Company	**P2,199**	P8,469	P7,894
Dividends on preferred shares for the period (a)	**953**	1,191	715
Net income attributable to common shareholders of the Parent Company(b)	**P1,246**	P7,278	P7,179
Weighted average number of common shares outstanding (in millions) (c)	**9,375**	9,375	9,375
Basic/Diluted earnings per common share attributable to equity holders of the Parent Company (b/c)	**P0.13**	P0.78	P0.77

As of December 31, 2012, 2011 and 2010, the Parent Company has no potential dilutive debt or equity instruments.

33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

	2012	2011	2010
Decrease (increase) in assets:			
Trade receivables	**(P3,484)**	(P3,714)	(P1,803)
Inventories	**1,341**	(9,618)	39
Other current assets	**(2,469)**	(3,925)	78
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**(3,909)**	2,646	3,661
Trade and other payables	**4,310**	851	1,647
	(4,211)	(13,760)	3,622
Additional allowance for impairment of receivables, inventory decline and/or obsolescence and others	**383**	121	501
	(P3,828)	(P13,639)	P4,123

34. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

a. The Risk and Insurance Management Group, which is mandated with the overall coordination and development of the enterprise-wide risk management process.

b. The Financial Risk Management Unit of the Treasurer's Department, which is in charge of foreign exchange hedging transactions.

c. The Transaction Management Unit of Controllers Department, which provides backroom support for all hedging transactions.

d. The Corporate Technical & Engineering Services Department, which oversees strict adherence to safety and environmental mandates across all facilities.

e. The Internal Audit Department, which has been tasked with the implementation of a risk-based auditing.

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

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

a. The Audit Committee, which ensures the integrity of internal control activities throughout the Group. It develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

b. The Compliance Officer, who is a senior officer of the Parent Company reports to the BOD through the Audit Committee. He monitors compliance with the provisions and requirements of the Corporate Governance Manual, determines any possible violations and recommends corresponding penalties, subject to review and approval of the BOD. The Compliance Officer identifies and monitors compliance risk. Lastly, the Compliance Officer represents the Group before the SEC regarding matters involving compliance with the Corporate Governance Manual.

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

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

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

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

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

	2012		2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**226**	**9,277**	338	14,818
Trade and other receivables	**1,084**	**44,498**	343	15,037
Other assets	**58**	**2,381**	29	1,271
	1,368	**56,156**	710	31,126
Liabilities				
Short-term loans	**787**	**32,306**	-	-
Liabilities for crude oil and petroleum product importation	**1,010**	**41,460**	509	22,314
Long-term debts (including current maturities)	**575**	**23,604**	356	15,607
Other liabilities	**246**	**10,098**	7	307
	2,618	**107,468**	872	38,228
Net foreign currency - denominated monetary liabilities	**(1,250)**	**(51,312)**	(162)	(7,102)

The Group reported net foreign exchange gains (losses) amounting to P1,270, (P88) and P1,742 in 2012, 2011 and 2010, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 26). These mainly resulted from the movements of the Philippine peso against the US dollar throughout the year. The foreign exchange rates from Php to US$ as of December 31 are shown in the following table:

	Php to US$
December 31, 2010	43.84
December 31, 2011	43.84
December 31, 2012	41.05

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of profit before tax and equity as of December 31, 2012 and 2011:

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

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
2011	Effect on Income Before Income Tax	Effect on Equity	Effect on Income Before Income Tax	Effect on Equity
Cash and cash equivalents	(P319)	(P243)	P319	P243
Trade and other receivables	(103)	(312)	103	312
Other assets	(13)	(25)	13	25
	(435)	(580)	435	580
Liabilities for crude oil and petroleum product importation	275	426	(275)	(426)
Long-term debts (including current maturities)	356	249	(356)	(249)
Other liabilities	5	6	(5)	(6)
	636	681	(636)	(681)
	P201	P101	(P201)	(P101)

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

Interest Rate Risk

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

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

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

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

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

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) and equity by P236 and P168 in 2012 and 2011, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As at December 31, 2012 and 2011, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

2012	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	**P83**	**P5,284**	**P84**	**P4,548**	**P20,036**	**P3,384**	**P33,419**
Interest rate	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 9.3%**	**6.3% - 7.2%**	**6.3% - 7.2%**	
US$ denominated (expressed in Php)	**-**	**2,668**	**8,855**	**8,855**	**3,226**	**-**	**23,604**
Interest rate*		**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**	**1, 3, 6 mos. Libor + margin**		
	P83	**P7,952**	**P8,939**	**P13,403**	**P23,262**	**P3,384**	**P57,023**

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

2011	<1 Year	1-<2 Years	2-<3 Years	3-<4 Years	4-<5 Years	>5 Years	Total
Fixed Rate							
Philippine peso denominated	P238	P84	P5,284	P84	P4,548	P23,420	P33,658
Interest rate	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 9.3%	6.3% - 7.2%	
Floating rate							
Philippine peso denominated	600	600	-	-	-	-	1,200
Interest rate	net 1M SDA + margin	net 1M SDA + margin					
US$ denominated (expressed in Php)	3,458	3,960	4,461	2,731	1,002	-	15,612
Interest rate*	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin	1, 3, 6 mos. Libor + margin		
	P4,296	P4,644	P9,745	P2,815	P5,550	P23,420	P50,470

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

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Group regulates and extends credit only to qualified and credit-worthy customers and counterparties, consistent with established Group credit policies, guidelines and credit verification procedures. Requests for credit facilities from trade customers undergo stages of review by National Sales and Finance Divisions. Approvals, which are based on amounts of credit lines requested, are vested among line managers and top management that include the President and the Chairman.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the notes to the consolidated financial statements, as summarized below:

	Note	**2012**	2011
Cash in bank and cash equivalents (net of cash on hand)	*6*	**P22,033**	P19,528
Derivative assets	*7*	**39**	43
Trade and other receivables - net	*9*	**57,731**	26,605
Due from related parties	*15*	**10,788**	23,787
Long-term receivables	*15*	**72**	88
		P90,663	P70,051

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

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

Collaterals. To the extent practicable, the Group also requires collateral as security for a credit facility to mitigate credit risk in trade receivables (Note 9). Among the collaterals held are letters of credit, bank guarantees, real estate mortgages, cash bonds, cash deposits and corporate guarantees valued at P4,899 and P3,925 as of December 31, 2012 and 2011, respectively. These securities may only be called on or applied upon default of customers.

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

The credit risk exposure of the Group based on TAR as of December 31, 2012 and 2011 are shown below (Note 9):

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

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2011				
Reseller	P210	P40	P35	P285
Lubes	286	6	25	317
Gasul	450	135	180	765
Industrial	10,390	814	671	11,875
Others	4,592	627	173	5,392
	P15,928	P1,622	P1,084	P18,634

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

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

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

Below is the credit quality profile of the Group's TAR as of December 31, 2012 and 2011:

	Trade Accounts Receivables per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2012				
Reseller	**P2,171**	**P387**	**P276**	**P2,834**
Lubes	**151**	**206**	**59**	**416**
Gasul	**243**	**302**	**497**	**1,042**
Industrial	**3,427**	**8,375**	**2,496**	**14,298**
Others	**3,239**	**2,097**	**299**	**5,635**
	P9,231	**P11,367**	**P3,627**	**P24,225**
December 31, 2011				
Reseller	P124	P135	P26	P285
Lubes	157	112	48	317
Gasul	348	240	177	765
Industrial	3,424	6,841	1,610	11,875
Others	4,537	762	93	5,392
	P8,590	P8,090	P1,954	P18,634

Liquidity Risk

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

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

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

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2012 and 2011.

2012	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P26,965**	**P26,965**	**P26,965**	**P -**	**P -**	**P -**
Trade and other receivables	**57,731**	**57,731**	**57,731**	**-**	**-**	**-**
Due from related parties	**10,788**	**10,788**	**-**	**10,788**	**-**	**-**
Derivative assets	**39**	**39**	**39**	**-**	**-**	**-**
Financial assets at FVPL	**147**	**147**	**147**	**-**	**-**	**-**
AFS financial assets	**911**	**1,026**	**139**	**488**	**399**	**-**
Long-term receivables	**72**	**84**	**8**	**34**	**16**	**26**

Forward

2012	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Liabilities						
Short-term loans	**P99,735**	**P100,174**	**P100,174**	**P -**	**P -**	**P -**
Liabilities for crude oil and petroleum product importation	**24,960**	**24,960**	**24,960**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding taxes payable)	**14,109**	**14,109**	**14,109**	**-**	**-**	**-**
Derivative liabilities	**245**	**245**	**245**	**-**	**-**	**-**
Long-term debts (including current maturities)	**56,013**	**71,822**	**3,560**	**11,208**	**52,856**	**4,198**
Cash bonds	**360**	**365**	**342**	**11**	**6**	**6**
Cylinder deposits	**213**	**213**	**-**	**-**	**-**	**213**
Other noncurrent liabilities	**1,862**	**1,862**	**-**	**1,815**	**24**	**23**

2011	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P23,823	P23,823	P23,823	P -	P -	P -
Trade and other receivables	26,605	26,610	26,610	-	-	-
Due from related parties	23,787	24,337	1,610	22,346	381	-
Derivative assets	43	43	43	-	-	-
Financial assets at FVPL	194	194	194	-	-	-
AFS financial assets	1,036	1,107	93	117	897	-
Long-term receivables	88	99	7	25	39	28
Financial Liabilities						
Short-term loans	40,593	40,877	40,877	-	-	-
Liabilities for crude oil and petroleum product importation	13,842	13,842	13,842	-	-	-
Accounts payable and accrued expenses (excluding taxes payable)	6,600	6,600	6,600	-	-	-
Derivative liabilities	55	55	55	-	-	-
Long-term debts (including current maturities)	49,868	67,242	7,621	9,308	24,076	26,237
Cash bonds	303	312	257	11	15	29
Cylinder deposits	383	383	-	-	-	383
Other noncurrent liabilities	54	54	-	1	32	21

Commodity Price Risk

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

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

Other Market Price Risk

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

Capital Management

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

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

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

	2012	2011
Total assets	**P279,200**	P175,795
Total liabilities	**203,062**	116,108
Total equity	**76,138**	59,687
Debt to equity ratio	**2.7:1**	1.9:1

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

35. Financial Assets and Financial Liabilities

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

		2012		2011	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*6*	**P26,965**	**P26,965**	P23,823	P23,823
Trade and other receivables	*9*	**57,731**	**57,731**	26,605	26,605
Due from related parties	*15*	**10,788**	**10,788**	23,787	23,787
Long-term receivables	*15*	**72**	**72**	88	88
Loans and receivables		**95,556**	**95,556**	74,303	74,303
AFS financial assets	*8*	**911**	**911**	1,036	1,036
Financial assets at FVPL	*7*	**147**	**147**	194	194
Derivative assets	*7*	**39**	**39**	43	43
FA at FVPL		**186**	**186**	237	237
Total financial assets		**P96,653**	**P96,653**	P75,576	P75,576

		2012		2011	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):					
Short-term loans	*16*	**P99,735**	**P99,735**	P40,593	P40,593
Liabilities for crude oil and petroleum product importation		**24,960**	**24,960**	13,842	13,842
Trade and other payables (excluding specific taxes and other taxes payable)	*17*	**14,109**	**14,109**	6,600	6,600
Long-term debt including current portion	*18*	**56,013**	**56,013**	49,868	49,868
Cash bonds	*20*	**360**	**360**	303	303
Cylinder deposits	*20*	**213**	**213**	383	383
Other noncurrent liabilities	*20*	**1,862**	**1,862**	54	54
FL at amortized cost		**197,252**	**197,252**	111,643	111,643
Derivative liabilities		**245**	**245**	55	55
Total financial liabilities		**P197,497**	**P197,497**	P111,698	P111,698

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

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

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges were based on the forecasted crude and product prices by Mitsui & Co. Commodity Risk Management Ltd. (MCRM), an independent trading group.

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

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

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2012 and 2011 are 6.14% and 6.16%, respectively.

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

Derivative Financial Instruments

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

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

Freestanding Derivatives

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

Currency Forwards

As of December 31, 2012 and 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$963 and US$220, respectively, and with various maturities in 2013 and 2012. As of December 31, 2012 and 2011, the net fair value of these currency forwards amounted to (P217) and P40, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2013. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 0.5 million barrels and 1.8 million barrels for 2012 and 2011, respectively. The estimated net receipts for these transactions amounted to P30 and P147 for 2012 and 2011, respectively.

Commodity Options
As of December 31, 2012, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 0.2 million barrels.

The call and put options can be exercised at various calculation dates in 2013 with specified quantities on each calculation date. The estimated amount net receipts of these call and put options as of December 31, 2012 amounted to P15.

Outstanding hedge in 2011 with notional quantities of 1.3 million barrels has an actual net receipt of P47.

Embedded Derivatives
Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of Petron. Under the sales contracts, Petron agrees to fix the peso equivalent of the invoice amount based on the average Philippine Dealing System (PDS) rate on the month of delivery. In the purchase contracts, the peso equivalent is determined using the average PDS rate on the month preceding the month of delivery.

As of December 31, 2012 and 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$83 and US$91, respectively. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2012 and 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P11 and (P52), respectively.

For the years ended December 31, 2012, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P845), P205, and (P98), respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative transactions in 2012 and 2011 are as follows:

	Note	**2012**	2011
Fair value at beginning of year		**(P12)**	P4
Net changes in fair value during the year	*26*	**(845)**	205
Fair value of settled instruments		**651**	(221)
Balance at end of year		**(P206)**	(P12)

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

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2012 and 2011. The different levels have been defined as follows:

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

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

2011	Level 1	Level 2	Total
Financial Assets			
FVPL	P194	P -	P194
Derivative assets	-	43	43
AFS financial assets	-	1,036	1,036
Financial Liabilities			
Derivative liabilities	-	(55)	(55)

The Group has no financial instruments valued based on Level 3 as of December 31, 2012 and 2011. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

36. Registration with the Board of Investments (BOI)

Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export producer status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products (except Toluene which, effective 2012, requires only 50%) every year except for the produced Propylene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron’s highest attained production volume for the last three years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.

c. Simplification of custom procedures.

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output of Mixed Xylene and Benzene and 50% of Toluene.

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

f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production of Mixed Xylene and Benzene and 50% of Toluene.

h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (one percent for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

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

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

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

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

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

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

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

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

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

h. Exemption from contractor's tax.

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

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.

b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent duty from date of registration up to June 16, 2011 pursuant to EO No. 528 and its Implementing Rules and Regulations.

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

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based in the formula of the ITH rate of exemption.

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

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

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

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

f. Exemption from contractor's tax.

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

37. Segment Information

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

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

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

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

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

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

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

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

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

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2012, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
2012						
Revenue:						
External sales	**P424,052**	**P -**	**P -**	**P743**	**P -**	**P424,795**
Inter-segment sales	**180,602**	**117**	**383**	**1,853**	**(182,955)**	**-**
Segment results	**8,807**	**90**	**171**	**77**	**248**	**9,393**
Net income	**2,316**	**159**	**37**	**93**	**(328)**	**2,277**
Assets and liabilities:						
Segment assets	**314,246**	**1,737**	**4,764**	**1,089**	**(42,714)**	**279,122**
Segment liabilities	**224,771**	**328**	**3,759**	**312**	**(29,153)**	**200,017**
Other segment information:						
Property, plant and equipment	**96,933**	**-**	**-**	**266**	**4,941**	**102,140**
Depreciation and amortization	**5,067**	**-**	**2**	**37**	**7**	**5,113**
2011						
Revenue:						
External sales	P273,270	P -	P -	P686	P -	P273,956
Inter-segment sales	201,319	102	357	983	(202,761)	-
Segment results	13,592	52	152	74	964	14,834
Net income	7,956	165	27	91	246	8,485
Assets and liabilities:						
Segment assets	183,449	1,834	3,954	918	(14,375)	175,780
Segment liabilities	124,123	146	3,018	224	(13,222)	114,289
Other segment information:						
Property, plant and equipment	46,465	-	-	205	3,776	50,446
Depreciation and amortization	3,615	-	-	42	-	3,657
2010						
Revenue:						
External sales	227,860	-	-	1,234	-	229,094
Inter-segment sales	8,271	139	327	2,789	(11,526)	-
Segment results	11,975	112	252	124	48	12,511
Net income	8,367	169	50	161	(823)	7,924
Assets and liabilities:						
Segment assets	163,823	2,086	2,935	1,097	(8,153)	161,788
Segment liabilities	108,665	559	2,027	303	(5,040)	106,514
Other segment information:						
Property, plant and equipment	31,753	-	1	379	2,824	34,957
Depreciation and amortization	3,476	-	-	65	(1)	3,540

Inter-segment sales transactions amounted to P182,955, P202,629 and P11,525 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2012, 2011 and 2010:

	Reseller	Lube	Gasul	Industrial	Others	Total
2012						
Revenue	**P180,897**	**P2,996**	**P24,899**	**P132,049**	**P83,211**	**P424,052**
Property, plant and equipment	**15,934**	**233**	**446**	**129**	**80,191**	**96,933**
Capital expenditures	**1,250**	**1**	**65**	**32**	**56,243**	**57,591**
2011						
Revenue	P108,765	P2,531	P19,500	P105,741	P36,733	P273,270
Property, plant and equipment	5,189	279	205	78	44,695	50,446
Capital expenditures	303	-	11	-	17,854	18,168
2010						
Revenue	92,584	2,123	15,054	90,311	27,788	227,860
Property, plant and equipment	4,524	345	181	43	26,660	31,753
Capital expenditures	169	1	8	2	2,615	2,795

Geographical Segments

The following table presents segment assets of the Group for the year 2012 and 2011.

	2012	2011
Local	**P187,183**	P163,693
International	**91,939**	12,087
	P279,122	P175,780

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2012, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2012						
Revenue						
Local	**P264,728**	**P55**	**P383**	**P2,596**	**(P2,292)**	**P265,470**
Export/international	**339,926**	**62**	**-**	**-**	**(180,663)**	**159,325**
2011						
Revenue						
Local	246,009	71	357	1,669	(1,411)	246,695
Export/international	228,580	31	-	-	(201,350)	27,261
2010						
Revenue						
Local	206,070	76	327	4,023	(3,192)	207,304
Export/international	30,061	63	-	-	(8,334)	21,790

38. Events After the Reporting Date

On February 6, 2013, the Company issued US$500 million Undated Subordinated Capital Securities (USCS) at the issue price of 100%. In March 2013, Petron reopened the issuance of the securities under the same terms and conditions of the earlier USCS. The additional US$250 million, issued at the price of 104.25%, was settled on March 11, 2013. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds will be applied by the Company towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes.

On March 18, 2013 the BOD approved cash dividend of P2.382 per share for preferred shareholders for the second and third quarter of 2013 with the following record and payment dates:

Period	Record Date	Payment Date
Second Quarter	May 10, 2013	June 5, 2013
Third Quarter	August 8, 2013	September 5, 2013

On the same date, the BOD approved cash dividend of P0.05 per share for common shareholders as of April 12, 2013 to be paid on May 8, 2013.

39. Other Matters

a. Petron has unused letters of credit totaling approximately P31,417, P25,452 and P9,236 as of December 31, 2012, 2011 and 2010, respectively.

b. Tax Credit Certificates Related Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 of Tax Credit Certificate ("TCCs") pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

In 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998 resulting from the cancellation by the Department of Finance (DOF) of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. On May 4, 2007, the CTA (2nd division) denied Petron's petition, ordering Petron to pay the BIR P601 representing the Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998 and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA En Banc, which ruled in favor of the Petron, reversing the unfavorable decision of the CTA (2nd Division). The BIR contested the CTA En Banc decision before the

Supreme Court. On March 21, 2012, the Supreme Court promulgated a decision in favor of Petron and against the BIR affirming the decision of the CTA En Banc finding that the BIR had no legal basis to assess the excise taxes or any penalty surcharge or interest thereon as Petron was an innocent transferee for value of the subject TCCs which had therefore properly filed its tax returns, and paid the appropriate taxes using such TCCs, for the years 1995 to 1998 (March 21 Decision). A motion was subsequently filed by the office of the solicitor general seeking for the reconsideration of the above decision. On July 11, 2012, the Supreme Court (2nd Division) issued a resolution upholding its decision and denying the office of the Solicitor General's motion for reconsideration with finality. The March 21 Decision in favor of Petron became final and executor on September 5, 2012.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into an Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (RTC) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance 8119), which applied to the entire City of Manila. Ordinance 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (Ordinance 8187), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by the Parent Company. The Parent Company filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered that the records of the case be forwarded to the Court of Appeals.

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

d. Oil Spill Incident in Guimaras

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

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against the Parent Company. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former President and Chairman of the Parent Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292. Both cases are pending.

e. Other Proceedings

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

f. Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

List of Banks and Financial Institutions

Allied Banking Corporation
Amalgamated Investment Bancorporation
Asia United Bank
Australia and New Zealand Banking Group, Ltd.
Ayala Life Assurance
Banco de Oro Unibank, Inc.
Bank of America Merrill Lynch
Bank of Commerce
Bank of the Philippine Islands
Barclays Capital
BDO Capital and Investment Corp.
BDO Leasing & Finance, Inc.
BDO Private Bank
BNP Paribas Corporate & Investment Banking
BPI Capital Corporation
China Banking Corporation
Chinatrust Commercial Bank
CIMB Investment Bank Berhad
Citibank, N. A.
Credit Agricole Corporate & Investment Bank
Credit Suisse
DBS Bank
Deutsche Bank
Development Bank of the Philippines
East West Bank
First Metro Investment Corporation
Goldman Sachs
HSBC Bank Bermuda Limited
ING Bank N. V.
Insular Life Assurance Co.
JP Morgan Chase Bank, N.A.
Land Bank of the Philippines
Maybank Group
Mega International Commercial Bank Co., Ltd.
Metropolitan Bank and Trust Company
MG Leasing Corporation
Mizuho Corporate Bank, Ltd.
Multinational Investment Bancorporation
National Commercial Bank
Nomura Singapore Limited
Norddeutsche Landesbank Girozentrale
Oversea Chinese Banking Corporation Limited
Philippine Bank of Communications
Philippine Business Bank
Philippine Commercial Capital,Inc.
Philippine National Bank
Pioneer Life, Inc.
PNB Life Insurance, Inc.
Public Bank
RCBC Capital Corporation
RHB Bank Berhad
Rizal Commercial Banking Corporation
Robinsons Bank Corporation
SB Capital Investment Corporation
Security Bank Corporation
Societe Generale Corporate & Investment Banking
Sony Life
Standard Chartered Bank
Sterling Bank of Asia
Sumitomo Mitsui Banking Corporation
Sunlife of Canada (Philippines), Inc.
Sunlife of Canada Prosperty Bond Fund, Inc.
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation, Ltd.
UBS
Union Bank of the Philippines
United Coconut Planters Bank
United Overseas Bank Limited

Terminals and Depots

LUZON

APARRI
J.P. de Carreon St. Punta
Aparri, Cagayan

BATANGAS
Bo. Mainaga, Mabini, Batangas

CALAPAN
Roxas St., Brgy. Ilaya,
Calapan City

LIMAY
Petron Bataan Refinery
Limay, Bataan

NAVOTAS
PFDA CMPD., Navotas City

PANDACAN
Jesus St., Pandacan, Manila

PASACAO
Brgy. Camangi, Pasacao, Camarines Sur

PALAWAN
Parola, Brgy. Maunlad, Puerto Princesa City

PORO
Poro Pt., San Fernando, La Union

ROSARIO
Gen. Trias, Rosario, Cavite

SAN JOSE
1020 A. Mabini St., San Jose, Occidental Mindoro

VISAYAS

AMLAN
Tandayag, Amlan, Negros Oriental

BACOLOD
Bo. San Patricio, Bacolod City, Negros Occidental

ILOILO
Lapuz, Iloilo City

ISABEL
LIDE, Isabel, Leyte

MACTAN
MEPZ, Lapu-lapu City

MANDAUE
Looc, Mandaue City

ORMOC
Bo. Linao, Ormoc City

ROXAS
Arnaldo Blvd., Culasi, Roxas City

TACLOBAN
Anibong, Tacloban City

TAGBILARAN
Graham Ave., Tagbilaran City

MINDANAO

DAVAO
Km. 9, Bo. Pampanga, Davao City

BAWING
Purok Cabu, Bawing, General Santos City

ILIGAN
Bo. Tuminobo, Iligan City

JIMENEZ
Jimenez, Misamis Occidental

NASIPIT
Talisay, Nasipit, Agusan del Norte

TAGOLOAN
Tagoloan, Misamis Oriental

ZAMBOANGA
Bgy. Campo Islam, Lower Calarian, Zamboanga City

AIRPORT INSTALLATIONS

DAVAO
Davao Airport

ILOILO
Brgy. Airport, Mandurriao, Iloilo City

LAOAG
Laoag Airport

NAIA
JOCASP, CPD, NAIA, Pasay City

LPG OPERATIONS

PASIG
Bo. Ugong, Pasig City

LEGASPI
Lakandula Drive, Bgy. Bonot, Legaspi City

SAN FERNANDO
San Fernando, Pampanga

WAREHOUSE

Calamba
Calamba, Laguna

Product List

FUELS

Automotive Fuels
Petron Blaze 100
Petron XCS
Petron Xtra Advance
Petron Super Xtra Gasoline
Petron Turbo Diesel
Petron Diesel Max
Petron Xtend Autogas

Industrial Fuels
Petron Fuel Oil
IF-1
LSFO-1
Intermediate Fuels
Special Fuel Oil
Petron Industrial Diesel Fuel

Aviation Fuels
Aviation Gasoline
Jet A- I

Household Fuels
Gasul
Gaas

AUTOMOTIVE LUBRICATING OILS

Diesel Engine Oils
Rev-X All Terrain
Rev-X Trekker
Rev-X Hauler
Rev-X Pantra
Rev-X HD
Petron HDX
Petron XD3
Petron XD 2040
Petron 2040
Petron Railroad Extra

Gasoline Engine Oils
Ultron Race
Ultron Rallye
Ultron Touring
Ultron Extra
Petron MO

Motorcycle Oils
Petron Sprint 4T Racer
Petron Sprint 4T Enduro
Petron Sprint 4T Rider
Petron Sprint 4T Extra
Petron Sprint 4T Econo
2T Premium
2T Enviro
2T Autolube
2T Powerburn

Automotive Gear Oils
Petron GX
Petron GEP
Petron GST

Automotive Transmission Fluids
Petron ATF Premium
Petron TF 38
Petron TDH 50

INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils
Hydrotur AWX
Hydrotur AW
Hydrotur AW (GT)
Hydrotur EP 46
Hydrotur N 100
Hydrotur R
Hydrotur SW 68
Hydrotur SX 32
Hydrotur SX 68
Hydrotur SX 220
Hydrotur T
Hydrotur TEP

Industrial Gear Oils
Hypex EP (Oil-Based)
Hypex EP (Asphalt-Based)
Milrol 5K
Gearfluid
Gearkote

Cutting Oils
Turnol
Petrokut 10
Petrokut 27

Refrigeration Oils
Zerflo 68
Suniso

Other Industrial Lubricating
Petrocyl S
Petrocyl
Airlube
Spinol 15
Spinol 10E
Petrosine 68
Voltran 60

MARINE LUBRICATING OILS

Marine Cylinder Oils
Petromar DCL 7050
Petromar DCL 4000 Series

Marine Trunk Piston Engine Oils
Petromar XC 5540
Petromar XC 5040
Petromar XC 4040
Petromar XC 3000 Series
Petromar XC 2000 Series
Petromar XC 1500 Series
Petromar XC 1000 Series

Other Marine Lubricants
Petromar 65
Petromar HD Marine Series

GREASES

Regular Performance Greases
Petrogrease MP
Petrogrease XX

Premium Performance Greases
Molygrease EP2
Molygrease Premium
Petrogrease EP
Petrogrease Premium

High Temperature Greases
Molygrease EP 1P and EP 2P
Petrogrease EP 290 and EP 375
Petrogrease HT

Complex Greases
Petrogrease Lithium Complex

ASPHALTS

Penetration Asphalt
Petropen

Cutback Asphalt
Petropen CB

Emulsified Asphalt
Petromul SS-1
Petromul CSS -1

Blown Asphalts
Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen
Petron Polymer Modified Bitumen

SPECIAL PRODUCTS

Process Oils
Process Oils
Printsol 600
Stemol
Jute Batching Oil
Aldro Oil 460
Rubbex 130

Heat Transfer Oil
Petrotherm 32

Cleaning Agent
Greasolve
Carbon Flush

Flushing Oil
STM

Sealing Lubricant
Dust Stop Oil

Protective Coatings
Petrokote 500
Petrokote 392
Marinekote
Marinekote SS
Autokote
Cablelube
Cablekote

Others
Petron Farm Trac Oil
Petron Marine HD Oil
Petron Regatta
Bull's Eye

AFTER MARKET SPECIALTIES
PetroMate Specialties
PetroMate Oil Saver
PetroMate Oil Improver
PetroMate Gas Saver
PetroMate Diesel Power Booster
PetroMate Engine Flush
PetroMate Super Coolant
PetroMate Clean N' Shine
PetroMate Penetrating Oil
PetroMate Greaseaway
PetroMate Brake and Clutch Fluid
PetroMate Carbon Buster

AVIATION LUBRICANTS
Braycote 622
Nyco Grease GN 22
Hydraunycoil FH 51
Royco 481
Aviation Oil Elite 20W-50
Turbo Oil 2389
Turbo Oil 2380
Turbonycoil 35
Turbonycoil 600

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Fax No.: (632) 884-0945
Website: www.petron.com
Email Address: contactus@petron.com

Shareholder Services and Assistance

For questions and comments regarding dividend payments,
change of address, account status, loss or damaged stock certificates,
please get in touch with: SMC Stock Transfer Service Corporation
40 San Miguel Avenue
1550 Mandaluyong City
Trunkline: (632) 632-3450 to 52
Fax No.: (632) 632-3535
Email Address: smc_stsc@smg.sanmiguel.com.ph

Institutional Investors

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