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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NEW SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NEW SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NEW SECURITIES DESCRIBED THEREIN.

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You are reminded that this offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering circular to any other person.

The materials relating to any offering of securities to which this offering circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers (as defined in the offering circular) or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer (as defined in the offering circular) in such jurisdiction.

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Petron Corporation

(a company incorporated under the laws of the Republic of the Philippines)

US$250,000,000 Undated Subordinated Capital Securities

to be consolidated and form a single series with the US$500,000,000 Undated Subordinated Capital Securities issued on February 6, 2013

Issue price: 104.25% plus an amount corresponding to accrued Distributions from, and including, February 6, 2013 to, but excluding, March 11, 2013

The US$250,000,000 undated subordinated capital securities (the "New Securities") are issued by Petron Corporation ("Petron" or the "Company"). The New Securities will constitute a further issuance of, and upon issuance will be fungible with and will be consolidated and form a single series with, the US$500,000,000 Undated Subordinated Capital Securities issued by the Issuer on February 6, 2013 (the "Original Securities" and, together with the New Securities, the "Securities"). The aggregate principal amount of the Original Securities and the New Securities, when issued, will be US$750,000,000. The New Securities confer a right to receive distributions (each, a "Distribution") at the applicable rate described below for the period from and including February 6, 2013, the issue date of the Original Securities (the "Issue Date") or from and including the most recent Distribution Payment Date (as defined below) to, but excluding, the next Distribution Payment Date or any redemption date. Subject to Condition 4.5 (*Optional Deferral of Distributions*), Distributions are payable semi-annually in arrear on the Distribution Payment Dates in each year. "Distribution Payment Dates" are defined as February 6 and August 6 of each year, commencing on August 6, 2013. Unless previously redeemed in accordance with the Terms and Conditions of the Securities and subject to Condition 4.4 (*Increase in Rate of Distribution*), Distributions (i) from and including the Issue Date to, but excluding, August 6, 2018 (the "Step Up Date") shall accrue on the outstanding principal amount of the New Securities at 7.50% per annum (the "Initial Rate of Distribution") and (ii) from and including each Reset Date (as defined below) (including the Step Up Date) to, but excluding, the immediately following Reset Date, shall accrue on the outstanding principal amount of the Securities at the relevant Reset Rate of Distribution (as defined below).

The Company may, in its sole and absolute discretion, on any day which is not less than five Business Days (as defined below) prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date (i) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities (each as defined below) of the Company, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Company or (ii) at the discretion of the Company, any Junior Securities or Parity Securities have been redeemed, repurchased or otherwise acquired by the Company or any of its subsidiaries. Any such deferred Distribution will constitute "Arrears of Distribution" and will not be due and payable until the relevant Payment Reference Date (as defined below). Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution (as defined below) as the principal amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

The Securities are undated securities in respect of which there is no fixed redemption date. Subject to applicable law, the Company may redeem the Securities (in whole but not in part) on the Step Up Date or any subsequent Distribution Payment Date at the Redemption Price (as defined below), on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). The Securities may also be redeemed (in whole but not in part) at the option of the Company at the Redemption Price upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined below). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company (A) upon the occurrence of a Change of Control Event (as defined below) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined below) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Security Default Event (as defined below) at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (as defined below) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price or (D) in the event 25% or less of the aggregate principal amount of the Securities issued on the Issue Date remain outstanding (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

Investing in the New Securities involves certain risks. See "Risk Factors" beginning on page 19.

The New Securities are being offered only outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The New Securities have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction. Unless they are so registered, the New Securities may be offered only in transactions that are exempt from or not subject to registration under the Securities Act or the securities laws of any other jurisdiction. For further details, see "Subscription and Sale."

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of, and permission to deal in, the New Securities by way of debt issues to professional investors only. This offering circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this offering circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The New Securities will be evidenced by a global certificate (the "Global Certificate") in registered form, which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective accountholders. Except in the limited circumstances set out herein, definitive certificates for New Securities will not be issued in exchange for beneficial interests in the Global Certificate. See "The Global Certificate." It is expected that delivery of the Global Certificate will be made on or about March 11, 2013.

Joint Bookrunners and Joint Lead Managers

Deutsche Bank **HSBC** **Standard Chartered Bank** **UBS**

Offering Circular dated March 6, 2013

In this offering circular, unless the context otherwise requires, the "Company" and "Petron" refer to Petron Corporation and its consolidated subsidiaries, the "Issuer" refers to Petron Corporation and the "Joint Lead Managers" refers to Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and UBS AG, Hong Kong Branch.

Prospective investors should rely only on the information contained in this offering circular. The Company and the Joint Lead Managers have not authorized anyone to provide prospective investors with information that is different. The information in this document may only be accurate on the date of this offering circular. Nothing in this offering circular should be relied upon as a promise or representation as to future results or events, and neither the delivery of this offering circular nor any offering or sale of the New Securities shall under any circumstances imply that there has been no change in the affairs of the Company or that the information herein is correct as of any date subsequent to the date hereof.

This offering circular is being furnished by the Company in connection with an offering exempt from the registration requirements under the Securities Act solely for the purpose of enabling a prospective investor to consider whether to purchase the New Securities. The information contained herein has been provided by the Company and other sources identified herein. None of the Joint Lead Managers, the Trustee (as defined below) or the Agents (as defined below) has independently verified the information contained herein. No representation or warranty, express or implied, is made by the Joint Lead Managers, the Trustee or the Agents as to the accuracy or completeness of such information, and nothing contained herein is, or may be relied upon as, a promise or representation by the Joint Lead Managers, the Trustee or the Agents as to the past or the future. None of the Joint Lead Managers, the Trustee or the Agents accepts any liability in relation to the information contained in this offering circular or any other information provided by the Company, or for any other statement made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or on any of their behalf in connection with the Company or in connection with the offering of the New Securities. The Joint Lead Managers, the Trustee and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise that any of them might otherwise have in respect of this offering circular or any such statement.

Listing of the New Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Company or the New Securities. In making an investment decision, prospective investors must rely on their examination of the Company and the terms of this offering, including the merits and risks involved. The New Securities have not been approved or recommended by any Hong Kong or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this offering circular.

IN CONNECTION WITH THE ISSUE OF THE NEW SECURITIES, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED (THE "STABILIZING MANAGER") OR ANY PERSON ACTING ON ITS BEHALF MAY OVER-ALLOT NEW SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NEW SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NEW SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NEW SECURITIES AND 60 DAYS AFTER THE ALLOTMENT OF SUCH NEW SECURITIES.

References to "US$" and "U.S. dollars" in this offering circular are to United States dollars, the lawful currency of the United States of America, references to "₱", "Philippine Peso", "Peso" and "PHP" are to the lawful currency of the Philippines and references to "RM", "Ringgit Malaysia", "Ringgit" and "sen" are to the lawful currency of Malaysia. The Company publishes its financial statements in Philippine Pesos. This offering circular contains translations of certain Philippine Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the Philippine Dealing System ("PDS") for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012. On March 4, 2013, the closing spot rate quoted on the Philippine Dealing System was ₱ 40.775 = US$1.00. On the same date, the closing spot rate quoted by Bank Negara Malaysia was RM 3.11 = US$1.00. See "Exchange Rates" for further information regarding the rates of exchange between (i) the Philippine Peso and the U.S. dollar and (ii) the Ringgit Malaysia and the U.S. dollar.

All references in this offering circular to the "Philippines" are to the Republic of the Philippines. Certain acronyms, technical terms and other abbreviations used are defined in the "Glossary" of this offering circular.

The financial information included in this offering circular has been derived from the consolidated financial statements of the Company and its subsidiaries. Unless otherwise indicated, the description of the Company's business activities in this offering circular is presented on a consolidated basis. Unless otherwise indicated, financial information in this offering circular has been prepared in accordance with Philippine Financial Reporting Standards ("PFRS").

All discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

The distribution of this offering circular and the offering and sale of the New Securities in certain jurisdictions may be restricted by law. Persons into whose possession this offering circular comes must inform themselves about and observe any such restrictions. There are restrictions on the distribution of this offering circular and the offer and sale of the New Securities in certain jurisdictions, including the United States, the United Kingdom, Singapore, Hong Kong, Japan, the European Economic Area and the Philippines. This offering circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in any circumstance in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

Each person investing in the New Securities shall be deemed to acknowledge that:

- it has been afforded an opportunity to request from the Company and to review, and has received, all additional information considered by such person to be necessary to verify the accuracy of, or to supplement, the information contained herein;

- it has had the opportunity to review all of the documents described herein;

- it has not relied on the Joint Lead Managers, the Trustee, the Agents or any person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of the information contained in the offering circular or its investment decision; and

- no person has been authorized to give any information or to make any representation concerning the New Securities other than those contained in this offering circular and, if given or made, such other information or representation should not be relied upon as having been authorized by the Company, the Joint Lead Managers, the Trustee or the Agents.

Prospective investors should not construe the contents of this offering circular as investment, legal or tax advice and should consult with their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of receiving the New Securities.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of the New Securities, including, without limitation, the merits and risks involved. None of the Company, the Joint Lead Managers, the Trustee or the Agents is making any representation to any prospective investor regarding the legality of an investment in the New Securities by such investor under any legal investment or similar laws or regulations. The offering of the New Securities is being made on the basis of this offering circular. Any decision to invest in the New Securities must be based on the information contained in this offering circular.

Each purchaser of the New Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such New Securities or possesses or distributes this offering circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such New Securities under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Company, the Joint Lead Managers, the Trustee or the Agents shall have any responsibility therefor.

Each person receiving this offering circular is advised to read and understand the contents of this offering circular before investing in the New Securities. If in doubt, such person should consult his or her advisors.

This offering circular has been prepared on the basis that all offers of the New Securities will be made pursuant to an exemption under the Prospectus Directive (as defined below), as implemented in the member states of the European Economic Area, from the requirement to produce a prospectus for offers of the New Securities. Accordingly any person making or intending to make any offer within the European Economic Area of the New Securities which are the subject of the placement contemplated in this offering circular should only do so in circumstances in which no obligation arises for the Company or any of the Joint Lead Managers to produce a prospectus for the offer. Neither the Company nor the Joint Lead Managers have authorized, nor do they authorize the making of any offer of the New Securities through any financial intermediary, other than offers made by the Joint Lead Managers which constitute the final placement of the New Securities contemplated in this offering circular.

Each person in a member state of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State") who receives any communication in respect of, or who acquires any New Securities under, the offers contemplated in this offering circular will be deemed to have represented, warranted and agreed to and with each of the Joint Lead Managers and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any New Securities acquired by it as a financial intermediary, as the term is used in Article 3(2) of the Prospectus Directive: (i) the New Securities acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Lead Managers has been given to the offer or resale; or (ii) where the New Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those New Securities to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This offering circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The New Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such New Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this offering circular or any of its contents.

The Company reserves the right to withdraw this offering of the New Securities at any time. The Company and the Joint Lead Managers also reserve the right to reject any offer to purchase the New Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of New Securities sought by such investor.

This offering circular does not constitute an offer to sell, or a solicitation of an offer to buy, any securities offered hereby in any circumstances in which such offer is unlawful.

The New Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other United States, Philippine or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Securities or the accuracy or adequacy of this offering circular. Any representation to the contrary is a criminal offense in the United States.

The New Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable state, Philippine or other securities laws pursuant to registration thereunder or exemption therefrom. See "Subscription and Sale." Prospective investors should thus be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

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ENFORCEABILITY OF CIVIL LIABILITIES

The Company is established in the Philippines and most of its assets are located in the Philippines and Malaysia. Substantially all of its directors and senior management reside in the Philippines and all or a substantial portion of their assets are located in the Philippines. The Company has been advised by its Philippine legal counsel, Picazo Buyco Tan Fider & Santos, that a final and conclusive judgment on the merits rendered against the Company and these persons by courts outside the Philippines obtained in an action predicated upon the civil liability provisions of laws other than Philippine laws would be recognized and enforced by the courts in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) such persons had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of law or fact and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

The Company also has operations in Malaysia. A judgment obtained against the Company in a court of a reciprocating country (as listed in the Reciprocal Enforcement of Judgments Act 1958 (Revised 1972) of Malaysia (the "Enforcement Act")) in respect of any sum payable by the Company may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the Enforcement Act within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum against the Company in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed above. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this offering circular that are not statements of historical fact constitute "forward-looking statements." Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Company's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Company's business strategy, its revenue and profitability (including, without limitation, any financial or operating projections or forecasts), planned projects and other matters discussed in this offering circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this offering circular involve known and unknown risks, uncertainties and other factors that may cause the Company's actual financial results, performance or achievements to be materially different from any future financial results, performance or achievements expressed or implied by such forward-looking statements or other projections.

The factors that could cause the Company's actual results to be materially different include, among others:

- changes in crude oil prices;
- general political and economic conditions in the Philippines, Malaysia and elsewhere in the Asia-Pacific region;
- changes in currency exchange rates;
- accidents, natural disasters or other adverse incidents in the operation of the Company's facilities;
- terms on which the Company finances its working capital and capital expenditure requirements;
- the ability of the Company to successfully implement its strategies;
- changes in governmental regulations, including those pertaining to regulation of the oil industry, zoning, tax, subsidies, operational health, safety and environmental standards; and
- competition in the oil industry in the Philippines and Malaysia.

Additional factors that could cause the Company's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors."

Should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected as well as from historical results. Specifically, but without limitation, revenues could decline, costs could increase, capital costs could increase, capital investments could be delayed and anticipated improvements in performance might not be realized fully or at all. Although the Company believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, prospective investors are cautioned not to place undue reliance on the forward-looking statements herein. In any event, these statements speak only as of the date hereof or the respective dates indicated herein, and the Company undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the more detailed information and the consolidated financial statements of the Company that appear elsewhere in this offering circular. The meaning of terms not defined in this summary can be found elsewhere in this offering circular.

Business

The Company was incorporated under the Philippine Corporation Law and registered with the Philippine Securities and Exchange Commission on December 22, 1966.

The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 38.8% of the Philippine oil market in terms of sales volume based on industry data from the Philippine Department of Energy for the nine months ended September 30, 2012. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.6% share of the Malaysian retail market for the nine months ended September 30, 2012, according to Metrix Research Sdn Bhd estimates, the market research consultant appointed by Malaysian retail market participants to compile industry data.

The Company's ISO 14001-certified Limay Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day, processes crude oil into a full range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstocks such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2010, the Company launched Phase 2 of the Refinery Master Plan for the Limay Refinery, a US$2 billion investment project that will enable the Limay Refinery to further enhance its operational efficiencies and convert its current fuel oil production into White Products production, significantly increase the Company's production of petrochemicals and make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard. Phase 2 of the Refinery Master Plan is expected to be completed in 2014.

The Company is also building a new cogeneration power plant in Limay, Bataan, at an estimated total project cost of approximately US$500 million, to replace some of the Limay Refinery's existing turbo and steam generators. The cogeneration power plant will completely fulfill the Limay Refinery's current and expected future electricity and steam requirements and is expected to reduce the Company's refining costs. The cogeneration power plant is being constructed in two phases. The first phase, which consists of two boilers and two circulating fluidized boilers, is expected to be commissioned in the first half of 2013, and the second phase is expected to be completed in 2014.

From the Limay Refinery, the Company moves its products, mainly by sea, to more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. Through this nationwide network, the Company supplies fuel oil, diesel, LPG and gasoline, as well as imported asphalt and gasoline formulated for use in piston-driven aircraft, to various industrial customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of 2,015 retail service stations in the Philippines as of December 31, 2012, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company also manufactures lubricants and greases, which are sold through the Company's service stations and sales centers. The Company owns and operates a fuels additive blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited, a global fuel additives supplier. Regional customers of Innospec, Limited and the Company's own requirements are served from the output of the Subic additive blending plant.

In recent years, the Company has diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery complex in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in Petrochemical Asia (HK) Ltd. ("PAHL"), owner of Philippine Polypropylene Inc. ("PPI"), which was diluted to 33% when PAHL issued new shares to another investor in June 2010. In December 2012, the Company converted certain loans it had made to PAHL to additional equity, which increased its stake in PAHL to 45.9%. The Company has an option to increase its stake in PAHL up to 51%. PPI owns a polypropylene plant located in Mariveles, Bataan in the Philippines.

On March 30, 2012, the Company completed its acquisition of ExxonMobil's integrated downstream business in Malaysia for an aggregate purchase price of US$577.3 million. The acquired assets and operations form an integrated downstream business. With this acquisition, the Company has extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company now owns and operates an 88,000 barrels per day refinery in Port Dickson, Malaysia, eight product terminals and a network of approximately 555 retail service stations in Malaysia, which are being rebranded under the *Petron* brand, a process that is expected to be completed in 2014. The acquisition is providing the Company with potential synergies in terms of manpower skills and technical knowledge, as well as potential product swap arrangements with suppliers who operate in both the Philippine and Malaysian markets. As of September 30, 2012 the acquired entities had a combined total asset value of ₱ 60.6 billion (based on an exchange rate of RM 1.00 = PHP 13.6).

The Company's products are primarily sold to customers in the Philippines and Malaysia, but, in line with its efforts to increase its presence in the regional market, the Company also exports various petroleum products and petrochemical feedstocks, including low-sulfur waxy residue, high-sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

The Company also engages in the businesses of insurance, marketing and leasing, and intends to support its core business through further investments, such as the upgrading and enhancement of its refineries, primarily the Limay Refinery pursuant to Phase 2 of the Refinery Master Plan, the construction of a new cogeneration power plant for the Limay Refinery and continued retail network expansion.

In the first nine months of 2012, the Company's sales were ₱ 307.3 billion, compared with ₱ 201.9 billion in the first nine months of 2011. The Company's net income in the first nine months of 2012 was ₱ 0.9 billion, compared with ₱ 7.6 billion in the first nine months of 2011.

Strengths

The Company believes that its principal competitive strengths include the following:

- Operations in the Philippine and Malaysian markets, which have favorable industry dynamics;
- Market leadership in the Philippine downstream sector;
- Established position in the regulated Malaysian market;
- Strong principal shareholder in San Miguel Corporation; and
- Experienced management team and employees.

Strategies

The Company's principal strategies are set out below:

- Further increase its market share in the Philippines and in Malaysia;
- Focus on production of high margin refined products and petrochemicals;
- Continue investments to increase operational efficiencies and widen market reach; and
- Selective synergistic acquisitions.

Recent Developments

On February 14, 2013, Petron Malaysia Refining & Marketing Berhad ("PMRMB"), a subsidiary of the Company listed on the Bursa Malaysia, released its unaudited condensed interim financial results for the quarter ended December 31, 2012 and for the year ending December 31, 2012. The Company indirectly holds a 73.4% equity interest in PMRMB. PMRMB's financial results will be consolidated into the Company's financial statements. During the quarter ended December 31, 2012 PMRMB recorded higher revenues as compared with the same period of the prior year, but it recorded lower gross profit as a result of factors including unfavorable trends in crude oil and refined product prices.

Corporate Information

Petron Corporation was incorporated under the laws of the Philippines in 1966. The Company's head office and principal place of business is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines. The Company's telephone number at this location is (632) 886-3888. The Company's primary website is www.petron.com. Information contained on the Company's website does not constitute a part of this offering circular. The Company's common and preferred shares are listed and traded on the Philippine Stock Exchange, Inc. under the symbols "PCOR" and "PPREF", respectively.

SUMMARY FINANCIAL INFORMATION

The following tables set forth summary financial information for the Company and should be read in conjunction with the auditors' reports and the Company's consolidated financial statements, including the notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this offering circular.

The summary financial information presented below for the year ended December 31, 2009 was derived from the consolidated financial statements of the Company, audited by Punongbayan & Araullo, a member firm within Grant Thornton International Ltd., and the summary financial information for the two years ended December 31, 2010 and 2011 was derived from the consolidated financial statements of the Company, audited by Manabat Sanagustin & Co., a member firm of KPMG. The summary financial information for the nine months ended September 30, 2011 and 2012 was derived from the unaudited condensed consolidated interim financial statements of the Company, reviewed by Manabat Sanagustin & Co., a member firm of KPMG. The Company's financial information included in this offering circular has been prepared in accordance with PFRS.

In 2010, Petron changed the accounting policy for its retirement benefit plan to align it to that of San Miguel Corporation. Previously, the Company recognized all actuarial gains and losses arising from changes in the assumptions used by the actuary in calculating the retirement liability at reporting dates in other comprehensive income as a permitted alternative under PAS 19 *Employee Benefits*. The change in accounting policy resulted in the application of the "corridor approach" in PAS 19, whereby Petron now recognizes actuarial gains and losses in profit or loss over the remaining working lives of the employees participating in the plan when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded the greater of 10% of the present value of the defined benefit obligation or the fair value of the plan assets. This change in accounting policy was accounted for retrospectively and is reflected in the comparative information as of and for the year ended December 31, 2009 included in this offering circular.

Summary Consolidated Statement of Income Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011(1)	2011	2012(2)	2012(1)
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	176,531	229,094	273,956	6,541.5	201,929	307,341	7,338.6
Cost of goods sold	(161,583)	(209,280)	(250,826)	(5,989.2)	(183,638)	(293,895)	(7,017.6)
Gross profit	14,948	19,814	23,130	552.3	18,291	13,446	321.0
Selling and administrative expenses	(5,748)	(7,303)	(8,296)	(198.1)	(4,856)	(6,906)	(164.9)
Interest expense and other financing charges	(4,251)	(4,297)	(5,124)	(122.3)	(3,879)	(5,760)	(137.5)
Interest income	205	827	1,380	33.0	1,007	873	20.8
Share in net loss of associates	—	(151)	(137)	(3.3)	(169)	(4)	(0.1)
Other income (charges)—net	597	1,409	168	4.0	(281)	(539)	(12.9)
Income before tax	5,751	10,299	11,121	265.5	10,113	1,110	26.4
Tax expense	(1,492)	(2,375)	(2,636)	(62.9)	(2,513)	(178)	(4.3)
Net income	4,259	7,924	8,485	202.7	7,600	932	22.1

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Summary Consolidated Statement of Financial Position Data

	(Audited)			(Unaudited)	
	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2010	2011	2011[1]	2012[2]	2012[1]
	(in millions of ₱)		(in millions of US$)	(in millions of ₱)	(in millions of US$)
Current assets:					
Cash and cash equivalents	43,984	23,823	568.8	21,627	516.4
Financial assets at fair value through profit or loss	227	237	5.7	158	3.8
Available-for-sale investments	178	—	—	—	—
Trade and other receivables—net	24,266	26,605	635.3	43,972	1,050.0
Inventories—net	28,145	37,763	901.7	60,974	1,455.9
Other current assets	4,286	8,178	195.3	11,807	281.9
	101,086	96,606	2,306.7	138,538	3,308.0
Assets held for sale	823	10	0.2	10	0.2
Total current assets	101,909	96,616	2,307.0	138,548	3,308.2
Non-current assets:					
Available-for-sale investments	983	1,036	24.7	927	22.1
Investment in an associate	804	2,505	59.8	1,155	27.6
Property, plant and equipment—net	34,957	50,446	1,204.5	84,611	2,020.3
Investment properties—net	119	794	19.0	726	17.3
Deferred tax assets—net	28	15	0.4	49	1.2
Goodwill	—	—	—	10,429	249.0
Other noncurrent assets	23,016	24,383	582.2	19,000	453.7
Total noncurrent assets	59,907	79,179	1,890.6	116,897	2,791.2
Total assets	161,816	175,795	4,197.6	255,445	6,099.5
Current liabilities:					
Short-term loans	32,457	40,593	969.3	74,293	1,773.9
Liabilities for crude oil and petroleum product importation	11,194	13,842	330.5	44,435	1,061.0
Trade and other payables	6,744	7,381	176.2	10,142	242.2
Derivative liabilities	30	55	1.3	81	1.9
Income tax payable	14	78	1.9	72	1.7
Current portion of long-term debts—net	11,517	4,124	98.5	73	1.7
Total current liabilities	61,956	66,073	1,577.7	129,096	3,082.5
Non-current liabilities:					
Long-term debts—net of current portion	42,885	45,744	1,092.3	45,255	1,080.6
Retirement benefits liability	249	671	16.0	1,473	35.2
Deferred tax liabilities—net	1,958	1,819	43.4	2,691	64.3
Asset retirement obligation	815	1,061	25.3	1,078	25.7
Other noncurrent liabilities	609	740	17.7	656	15.7
Total noncurrent liabilities	46,516	50,035	1,194.7	51,153	1,221.4
Total liabilities	108,472	116,108	2,772.4	180,249	4,303.9
Equity attributable to equity holders of the parent:					
Preferred stock	100	100	2.4	100	2.4
Common stock	9,375	9,375	223.9	9,375	223.9
Additional paid-in capital—preferred	9,764	9,764	233.1	9,764	233.1
Retained earnings	33,748	40,088	957.2	39,084	933.2
Other reserves	83	70	1.7	(190)	(4.5)
Total equity attributable to equity holders of the Parent	53,070	59,397	1,418.3	58,133	1,388.1
Noncontrolling interest	274	290	6.9	17,063	407.4
Total equity	53,344	59,687	1,425.2	75,196	1,795.5
Total liabilities and equity	161,816	175,795	4,197.6	255,445	6,099.5

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Summary Consolidated Statement of Cash Flows Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011[1]	2011	2012[2]	2012[1]
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by (used in) operating activities	4,652	17,453	790	18.9	(641)	3,415	81.5
Net cash flows used in investing activities	(1,693)	(21,241)	(22,637)	(540.5)	(13,057)	(32,974)	(787.3)
Net cash flows provided by (used in) financing activities	(2,736)	34,598	1,658	39.6	(9,947)	27,451	655.5
Effect of exchange rate changes on cash and cash equivalents	(65)	189	28	0.7	60	(88)	(2.1)
Cash and cash equivalents at beginning of period	12,827	12,985	43,984	1,050.2	43,984	23,823	568.8
Cash and cash equivalents at end of period	12,985	43,984	23,823	568.8	20,399	21,627	516.4

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Other Financial and Operating Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011[1]	2011	2012[2]	2012[1]
	(in millions of ₱ except sales volume and ratios)			(in millions of US$)	(in millions of ₱ except sales volume and ratios)		(in millions of US$)
Sales volume ('000 bpd)	121	132	128	—	126	194	—
Net debt[3]	—	42,876	66,638	1,591	—	97,994	2,340
Ratio of total debt to equity	—	1.6	1.5	—	—	1.6	—
Ratio of net debt to equity	—	0.8	1.1	—	—	1.3	—
EBITDA[4]	13,687	15,968	18,553	443.0	15,727	9,719	232.1
Capital expenditures[5]	1,928	4,417	19,070	455.3	10,635	22,407	535.0
Total debt[6]	—	86,860	90,461	2,160.0	—	119,621	2,856.3
Ratio of EBITDA to net interest expense[7]	3.4	4.6	5.0	—	5.4	2.0	—
Ratio of net adjusted debt to EBITDA[8]	—	2.8	3.2	—	—	5.1	—

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

(3) Net debt represents the sum of short-term loans, current portion of long-term debts—net and long-term debts—net of current portion, less cash and cash equivalents.

(4) The Company defines EBITDA as net income before net financing charges, tax expense and depreciation and amortization. Net financing charges include interest income, interest expense, foreign exchange gains/losses, bank charges, amortization of transaction costs and marked to market on freestanding currencies. EBITDA is not a standard measure of the Company's financial condition or liquidity under PFRS. EBITDA should not be considered in isolation or construed as an alternative to net income or any other performance measures derived in accordance with PFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. The Company has included EBITDA because it believes it is a useful supplement to net income in measuring its operating performance. Other companies in the industry may calculate EBITDA differently or may use it for different purposes than the Company does, limiting its usefulness as a comparative measure. The table below provides a reconciliation of net income to EBITDA.

(5) Capital expenditures represents the sum of purchases of property, plant and equipment and of intangible assets, net of disposals.

(6) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.

(7) Net interest expense represents interest expense and other financing charges less interest income.

(8) Net adjusted debt represents short-term loans, plus current portion of long-term debts–net and long-term debts–net of current portion as of the period-end date, less cash and cash equivalents as of the period-end date. For the purpose of calculating this ratio, (A) for each of the years ended December 31, 2010 and 2011, short-term loans are calculated as the average of the monthly closing balances of short-term loans for the twelve months then ended and (B) for the nine months ended September 30, 2012, short-term loans are calculated as (x) the average of the monthly closing balances of short-term loans of the Company for the twelve months then ended including (y) (i) the monthly closing balances of short-term loans for the "Exxon Malaysia Entities" (as defined below) for the period from October 2011 to February 2012 less (ii) inter-company eliminations between or among the Exxon Malaysia Entities as if the Exxon Malaysia Entities were consolidated under a single holding company. Exxon Malaysia Entities refers to ExxonMobil Malaysia Sdn. Bhd, ExxonMobil Borneo Sdn. Bhd and Esso Malaysia Berhad. For the years ended December 31, 2010 and 2011, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the corresponding year then ended. For the nine months ended September 30, 2012, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the twelve months ended September 30, 2012 (calculated as the sum of (A) (x) EBITDA of the Company for the nine months ended September 30, 2012 plus EBITDA of the Company for the year ended December 31, 2011 less (y) EBITDA of the Company for the nine months ended September 30, 2011 and (B) (x) EBITDA of the Exxon Malaysia Entities for the three months ended March 31, 2012 and (y) EBITDA of the Exxon Malaysia Entities for the three months ended December 31, 2011. EBITDA of the Exxon Malaysia Entities is calculated as the sum of EBITDA of each of the Exxon Malaysia Entities less inter-company eliminations between or among the Exxon Malaysia Entities as if the Exxon Malaysia Entities were consolidated under a single holding company. The method of calculation of EBITDA solely in relation to the Company's adjusted net debt to EBITDA ratio for the nine months ended September 30, 2012 is different from and not comparable with the method of calculation of EBITDA and related items as set out elsewhere in this offering circular.

	For the years ended December 31, (Audited)				For the nine months ended September 30, (Unaudited)		
	2009	2010	2011	2011[(1)]	2011	2012	2012[(1)]
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net income	4,259	7,924	8,485	202.6	7,600	932	22.3
Add:							
Net financing charges	4,348	2,130	3,775	90.1	2,909	4,981	118.9
Tax expense	1,492	2,374	2,636	62.9	2,513	178	4.3
Depreciation and amortization	3,588	3,540	3,657	87.3	2,705	3,628	86.6
EBITDA	13,687	15,968	18,553	443.0	15,727	9,719	232.1

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

	For the three months ended March 31, 2012 (Unaudited)	For the three months ended June 30, 2012 (Unaudited)	For the three months ended September 30, 2012 (Unaudited)
	(in millions of ₱)	(in millions of ₱)	(in millions of ₱)
Statement of Income Data:			
Sales	74,655	118,644	114,042
Cost of goods sold	68,244	116,083	109,568
Gross profit	6,411	2,561	4,474
Selling and administrative expenses	(1,793)	(2,780)	(2,333)
Interest expense and other financing charges	(1,516)	(2,564)	(1,680)
Interest income	340	309	224
Share in net income (loss) of associates	65	(43)	(26)
Other charges—net	(55)	(276)	(208)
Income before tax	3,452	(2,793)	451
Tax expense (benefit)	963	(736)	(49)
Net income (loss)	2,489	(2,057)	500

	For the three months ended March 31, 2012	For the three months ended June 30, 2012	For the three months ended September 30, 2012
	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions of ₱)	(in millions of ₱)	(in millions of ₱)
Net income (loss)	2,489	(2,057)	500
Add:			
Net financing charges	1,158	2,683	1,140
Tax expense (benefit)	963	(737)	(48)
Depreciation and amortization	969	1,315	1,344
EBITDA	5,579	1,204	2,936

SUMMARY OF THE OFFERING

The following is a brief summary of certain terms of the New Securities. For a more complete description of the terms of the Securities, see "Terms and Conditions of the Securities." Capitalized terms not otherwise defined herein shall have the meanings set forth under "Terms and Conditions of the Securities."

Issuer	Petron Corporation, a company incorporated under the laws of the Republic of the Philippines.
Securities Offered	US$250,000,000 undated subordinated capital securities (the "New Securities"). The New Securities will constitute a further issuance of, and upon issuance will be fungible with and will be consolidated and form a single series with, the US$500,000,000 Undated Subordinated Capital Securities issued on February 6, 2013 (the "Original Securities" and, together with the New Securities, the "Securities"). Upon issuance, the New Securities will rank *pari passu* with the Original Securities in all respects. The aggregate principal amount of the Original Securities and New Securities, when issued, will be US$750,000,000.
Status of the Securities	The Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and in priority of claims of holders of Junior Securities. The claims of the Holders in respect of the Securities, including in respect of any claim to Arrears of Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank: (a) junior to all unsubordinated obligations of the Issuer (other than Parity Securities) and any obligation assumed by the Issuer under any guarantee of, or any indemnity in respect of, any obligation or commitment which rank or are expressed to rank senior to the Securities; (b) *pari passu* with each other and with any Parity Securities of the Issuer; and (c) senior only to the Issuer's Junior Securities.
No Set-off	To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.
Covenant	The Issuer will undertake not to issue any Preferred Stock which ranks, or is expressed to rank, by its terms or by operation of law, senior to the Securities.
Initial Rate of Distribution	7.50% per annum plus any increase pursuant to Condition 4.4 (*Increase in Rate of Distribution*).
Issue Price	104.25% plus an amount corresponding to accrued Distributions from, and including, February 6, 2013 to, but excluding, March 11, 2013.

Form and Denomination	The Securities are issued in registered form in amounts of US$200,000 and integral multiples of US$1,000 in excess thereof.
Distributions	Subject to Condition 4.4 (Increase in Rate of Distribution) and Condition 4.5 (Optional Deferral of Distributions), the New Securities will confer a right to receive distributions ("Distributions"): (a) from the period commencing on (and including) the Issue Date to (but excluding) August 6, 2018 (the "Step Up Date"), at the Initial Rate of Distribution; and (b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar), payable semi-annually in arrear on February 6 and August 6 of each year (each a "Distribution Payment Date") commencing on August 6, 2013. "Reset Date" means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.
Increase in Rate of Distribution	Following the earlier to occur of: (a) the date which is the 61st day, or if such day is not a Business Day the first Business Day thereafter, following a Change of Control Event; and (b) the date on which a Reference Security Default Event occurs, the Rate of Distribution will increase by 2.50% per annum with effect from the next Distribution Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date). For the avoidance of doubt, an increase (if any) in the Rate of Distribution pursuant to Condition 4.4 (*Increase in Rate of Distribution*) shall not occur more than once. A "Change of Control Event" means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders. "Permitted Holders" mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel

	Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.
	"Reference Security Default Event" means an event of default occurs pursuant to condition 10(b) or 10(c) (Events of Default) of the Issuer's outstanding ₱ 20,000,000,000 7.0% PHP-denominated notes due 2017 payable in U.S. dollars (the "Senior Notes") (ISIN: XS0554144831) as a result of the Issuer's default in, non-compliance with or non-performance of condition 4 (Covenants of the Issuer) of the Senior Notes, as such Senior Notes are amended from time to time in accordance with condition 15 of the Senior Notes.
Optional Deferral of Distributions	The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the six months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the "Deferral Election Event"). Any such deferred Distribution will constitute "Arrears of Distribution" and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.
	The Issuer will notify the Securityholders (in accordance with Condition 12.1 (*Notices to Securityholders*)), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the "Deferral Election Notice"). Deferral of a Distribution pursuant to Condition 4.5(a) (*Optional Deferral of Distributions*) will not constitute a default by the Issuer or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.
	The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a) (*Optional Deferral of Distributions*).
	"Compulsory Distribution Payment Event" means (a) a dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer or (b) at the discretion of the Issuer, any Junior Securities or Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

Restrictions in the case of Deferral	If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will: (a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer, unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in these restrictions shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.
Payments of Arrears of Distribution	The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1 (Notices to Securityholders)), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a) (Optional Deferral of Distributions)), on the relevant Payment Reference Date (in accordance with Condition 6 (Payments)). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders. "Payment Reference Date" means the date which is the earliest of: (a) the date on which the Securities are redeemed in accordance with Condition 5 (*Redemption and Purchase*); (b) the date on which an order is made for the Winding-Up of the Issuer; (c) the date on which the Issuer is in violation of Condition 4.6 (*Restrictions in the case of Deferral*) or on the occurrence of a Compulsory Distribution Payment Event; and (d) the date of any substitution or modification of the Securities pursuant to Condition 13 (*Substitution or Modification to Remedy Gross-Up Event or Accounting Event*).

Expected Closing Date	March 11, 2013.
Redemption	The Securities have no fixed redemption date. Unless previously redeemed or purchased and cancelled as provided below, the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its constituent documents (including its articles of incorporation, which currently provide for the Issuer's corporate term to expire on December 22, 2016). If the corporate term of the Issuer is extended, the maturity date of the Securities will automatically and correspondingly be extended. *As of the date of this offering circular, the Issuer's articles of incorporation provide that its corporate term will expire on December 22, 2016 and the Issuer intends to extend its corporate term prior to such expiry. On November 12, 2012, a resolution of the board of directors of the Issuer was passed to amend the articles of incorporation of the Issuer to extend its corporate term until December 22, 2066. This amendment to the Issuer's articles of incorporation is subject to the approval of the shareholders of the Issuer and the Securities and Exchange Commission of the Republic of the Philippines.*
Redemption at the Option of the Issuer	Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on: (a) the Step Up Date; or (b) any Distribution Payment Date falling after the Step Up Date, in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (Notices to Securityholders).
Early Redemption due to a Gross-up Event	If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*). No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities. Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee: (a) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

	(b) an opinion of an independent legal or tax adviser of recognised standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event, and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.
Early Redemption due to a Change of Control Event	If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (a) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (b) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Early Redemption due to a Reference Security Default Event	If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Early Redemption due to an Accounting Event	If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (a) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (b) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).
Redemption of Securities in the case of Minimal Outstanding Amounts	In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part): (a) at any time prior to the Step Up Date, at the Special Redemption Price; or (b) on or at any time after the Step Up Date, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to Securityholders*).

Taxation and Additional Amounts.	All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer at the rate of up to and including 30%, the Issuer will pay such additional amounts as will result in the receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required. In the event that the Issuer makes a deduction or withholding required by law in excess of 30%, the Issuer shall pay such additional amount ("Additional Amounts") as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required, except in certain circumstances. See Condition 7 (*Taxation and Gross-up*).
Limited Rights to Institute Proceedings	Notwithstanding any of the provisions in Condition 10 (*Non-Payment*), the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5 (*Optional Deferral of Distributions*). In addition, nothing in Condition 10 (*Non-Payment*), including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.
Proceedings for Winding-Up	If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 (*Entitlement of Trustee*) and, subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.
Substitution or Modification	The Trustee may, without the consent of the Securityholders, agree with the Issuer to: (a) the substitution in place of the Issuer (or of any previous substitute under Condition 13 (*Substitution or Modification to Remedy Gross-Up Event or Accounting Event*)) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or (b) the modification of the Terms and Conditions of the Securities to the extent reasonably necessary,

	in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that: (i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-Up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer; (ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and (iii) certain other conditions set out in the Trust Deed are complied to the satisfaction of the Trustee.
Further Issues	The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further Securities which are to form a single series with the Securities will be constituted by a deed supplemental to the Trust Deed.
Listing and Trading	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the New Securities by way of debt issues to professional investors only.
Use of Proceeds	The net proceeds from the issue of the New Securities, which will be approximately US$259,500,000 (including the amount paid by investors corresponding to accrued Distributions from, and including, February 6, 2013 to, but excluding, March 11, 2013 and after the deduction of commissions and estimated offering expenses), will be applied by the Company towards capital and other expenditures in respect of Phase 2 of the Refinery Master Plan and used for general corporate purposes. See "Use of Proceeds."
Selling Restrictions	The New Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The New Securities may be sold in other jurisdictions (including the United Kingdom, Singapore, Hong Kong, Japan, the European Economic Area and the Philippines) only in compliance with applicable laws and regulations. See "Subscription and Sale."
ISIN	XS0879849312
Common Code	087984931

RISK FACTORS

Prospective investors should carefully consider the following, in addition to the other information contained in this offering circular, including the financial statements and related notes, before making any investment decision relating to the New Securities. The occurrence of any of the following events, or other risks that are not presently known or are now deemed immaterial, could have a material adverse effect on the business, results of operations, financial condition and prospects of the Company, and prospective investors may lose all or part of their investment.

Risks Relating to the Company's Business and Operations

Volatility of the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's financial results are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for imported crude oil, which generally accounts for a large portion of the Company's total cost of goods sold. For example, in the nine months ended September 30, 2012, crude oil accounted for approximately 78% of the Company's total cost of goods sold.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation and other factors over which the Company has no control. Historically, international crude oil prices have been volatile, and they are likely to continue to be volatile in the future. International crude oil prices were especially volatile in the second quarter of 2012. For example, Dubai crude oil prices declined from approximately US$124/bbl on March 14, 2012 to approximately US$89/bbl on June 22, 2012.

The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices, as was the case in the second quarter of 2012, causing the Company to report a net loss for that period. The Company may not be able to pass crude oil price fluctuations along to its consumers in a timely manner or at all due to regulatory restrictions or social and competitive concerns. The Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. For example, on October 2, 2009, then President Gloria Macapagal-Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng." President Arroyo subsequently issued Executive Order 839 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009. As a result of this price freeze, the Company was unable to raise prices for its refined petroleum products, which adversely affected its profitability during the period until the price freeze was lifted on November 16, 2009. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition. In addition, even if the Company were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases. The Company's Malaysian operations are subject to government price controls. See "—The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas."

Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on the Company's financial condition and results of operations.

The Company relies primarily on a single source of supply for a significant portion of its crude oil requirements in each of the Philippines and Malaysia.

The Company purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company ("Saudi Aramco"). For example, in 2011 and the first nine months of 2012, the Company purchased approximately 74% and 81%, respectively, of the total crude oil supply requirements of the Company's refinery in Limay, Bataan in the Philippines (the "Limay Refinery") from Saudi Aramco, the state-owned national oil company of Saudi Arabia. Under the term contract the Company entered into with Saudi Aramco in 2008, the Company may purchase up to 140 thousand barrels per calendar day ("MBCD") of various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is automatically renewed annually unless either the Company or Saudi Aramco decides to terminate the contract upon at least 60 days' written notice prior to its expiration date. The contract was most recently renewed on October 28, 2012. The completion of Phase 2 of the Refinery Master Plan ("RMP-2"), which is expected in 2014, is expected to increase the total crude oil supply requirements of the Limay Refinery, and the Company may be required to purchase more Saudi Aramco crudes to meet such increased demand. The supply of imported crude oil by Saudi Aramco is subject to a variety of factors beyond the Company's control, including political developments in and the stability of Saudi Arabia and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions and overall economic conditions in the Middle East. In addition, the Company purchases all of the crude oil supply requirements for its refinery in Port Dickson, Malaysia (the "Port Dickson Refinery"), including purchases under term contracts and spot market purchases, from Concord Energy Pte Ltd ("Concord Energy"). A disruption in the operations of Saudi Aramco, or a decision by either Saudi Aramco or Concord Energy to amend or terminate their respective contracts with the Company, could negatively impact the Company's crude oil supply. If the Company's supply of crude oil from Saudi Aramco or Concord Energy were disrupted, the Company would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time of the disruption, such purchases from other suppliers could be at higher prices than the Company's purchases from Saudi Aramco or Concord Energy, which would adversely affect the Company's financial condition and results of operations.

While the Limay Refinery and the Port Dickson Refinery are configured to process predominantly light and sweet crude oils, such as Middle East crude oil from Saudi Aramco and Malaysian Tapis crude oil purchased from Concord Energy, respectively, both refineries are capable of processing other crude oils. In line with its crude oil optimization strategy, the Company is exploring the utilization of other crude oils at both refineries. However, there can be no assurance that the Company will be able to convert to other crude oils efficiently or in a timely manner.

If the Company is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially adversely affected.

The Company's business, financial condition and results of operations may be adversely affected by intense competition.

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national, regional and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. The Company's Malaysian operations are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is based primarily on the allocation of the applicable quotas by the Malaysian government. See "—The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas."

The Company's competitiveness will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and comply with and obtain additional quotas from the Malaysian government. If the Company is unable to compete effectively with its competitors, its financial condition and results of operations, as well as its business prospects, could be materially adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. The Company's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond its control.

The Company's business strategies require significant capital expenditures and financing, which are subject to a number of risks and uncertainties, and its financial condition and results of operations may be adversely affected by its debt levels.

The Company's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction and maintenance of machinery and equipment require substantial capital expenditures. The Company's ability to maintain and increase its sales, net income and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. The Company's current business strategies involve various upgrades and enhancements to its refineries, primarily the Limay Refinery pursuant to the RMP-2, the construction of new facilities, the continued expansion of its service station network in the Philippines and the rebranding and refurbishing of its service station network in Malaysia. See "Business—Capital Expenditures Plan" for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations and financial condition could be adversely affected.

In addition, the Company has recently incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. Since the net proceeds of the Original Securities, the New Securities and the Company's other cash resources will be insufficient to fully finance its planned capital expenditures, the Company's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that the Company will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Any significant disruption in operations or casualty loss at the Company's refineries could adversely affect its business and results of operations and result in potential liabilities.

The Company's operation of its refineries and implementation of its expansion plans, including the RMP-2, could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, in November 2008, the main electrical facilities in the utilities area of the Limay Refinery were damaged by a fire, which necessitated repairs and resulted in higher maintenance and repair costs for 2009. These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company has insurance policies that cover property damage, third party property damage, personal injury, accidental death and dismemberment, and business interruption to mitigate the potential impact of these risks. However, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on the Company.

The Company may fail to integrate acquired businesses properly, which could adversely affect the Company's results of operations and financial condition.

In March 2012, the Company completed its acquisition of ExxonMobil's downstream business in Malaysia, extending the Company's portfolio of oil refining and marketing businesses outside the Philippines. See "Business—Overview." The Company will continue to consider selective opportunities to expand both domestically and outside the Philippines through strategic acquisitions consistent with its focuses on increased production of White Products and the creation of operational synergies. However, there can be no assurance that the Company will be able to integrate its new business in Malaysia fully in line with its strategy. Any failure to do so could have a material adverse effect on the business, results of operations and financial condition of the Company. Future acquisitions could also give rise to similar integration risks, as well as financial risks.

Failure to respond quickly and effectively to product substitution or government-mandated product formulations may adversely affect the Company's business and prospects.

As a result of high oil prices and environmental concerns, the use of alternative fuels such as natural gas, ethanol and coco-methyl-ester fuel blends have become more attractive to the Company's customers in recent years. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by the Company, resulting in lower sales volumes. In recent years, the Philippine and Malaysian governments have each enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline fuels sold or distributed by every oil company in those countries, and these types of requirements may be increased in the future. If the Company does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas.

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism ("APM"), pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011." The Malaysian government subsidizes fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. The Company's financial condition thus depends to a significant degree on the Malaysian government's prompt payment of these fuel subsidies. The Malaysian government has publicly stated that the country's fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy levels are unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their application in the future without a corresponding commensurate increase in or elimination of the price ceiling. A substantial portion of the Company's revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices remain high or increase further and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the mandated refined petroleum product prices, the Company's financial condition and results of operations would be materially and adversely affected.

In addition, the sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial or commercial customers at higher, unregulated, prices. Diesel sales that exceed the volumes permitted under the Company's or its industrial or commercial customers' quotas are not eligible for government subsidies. Accordingly, the Company endeavors to limit diesel sales to volumes covered by the quotas. See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011." There can be no assurance that the Malaysian government will increase quotas, grant applications or not decrease the Company's quotas or those of any of its industrial or commercial customers in the future. A substantial portion of the Company's revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase the Company's quotas or those of any of its commercial transportation customers, the Company's financial condition and results of operations would be materially and adversely affected.

Continued compliance with safety, health, environmental and zoning laws and regulations may adversely affect the Company's results of operations and financial condition.

The operations of the Company's business are subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of the Company's business. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Company, including the revocation or suspension of the Company's licenses or operation of its facilities.

The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental and zoning laws and regulations. For example, the Company built a light virgin naphtha isomerization unit and gas oil hydrotreater in 2006 to ensure that the Limay Refinery complied with the standards mandated by the Philippine Clean Air Act. See "Regulatory and Environmental Matters—Philippines."

There can be no assurance that the Company will be in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental and zoning matters, the costs of which could be material. In addition, safety, health, environmental and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental and zoning laws or other developments in the future will not result in the Company being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. For example, in November 2001, the City of Manila, citing concerns of safety, security and health, passed an ordinance reclassifying the area occupied by the Company's main storage facility in Pandacan, Manila, from industrial to commercial, effectively rendering its continued operation in Pandacan illegal and necessitating a relocation of the storage facility. See "Business—Legal Proceedings—Pandacan Terminal Operations." In August 2012, the City Council of Manila passed a further ordinance specifically requiring owners and operators of petroleum refineries and oil depots to relocate their facilities by the end of January 2016. The proposed ordinance was vetoed by the Mayor of Manila, but the City Council subsequently overrode the veto. Under the Local Government Code of the Philippines, the local chief executive may veto an ordinance only once, but the local council may override any such veto by the vote of two-thirds of all of its members, thereby making the ordinance effective notwithstanding the lack of approval by the local chief executive. In October 2012, the Mayor of Manila vetoed the proposed ordinance for the second time on the basis of a provision in the city charter allowing him to veto an ordinance twice. Although the Company is contesting the implementation of the November 2001 ordinance, it has decided to cease operations at its petroleum product storage facilities in Pandacan by no later than January 2016.

In addition, the Company expects Euro IV-standard fuels and Euro 4M-standard fuels to become mandatory in the Philippines and Malaysia, respectively, in 2016. See "Regulatory and Environmental Matters—Malaysia—Environmental Laws—Environmental Quality Act, 1974." The Company is making capital expenditures to ensure that its refineries will comply with Euro IV standards and Euro 4M standards when these standards are mandated by the Philippine and Malaysian governments, respectively. See "Business—Capital Expenditures Plan." If the Company fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on the Company's financial condition and results of operations.

Changes in applicable taxes, duties and tariffs could increase the Company's operating costs and adversely affect its business, results of operations and financial condition.

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, duties for the import of crude oil and petroleum products into the Philippines were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% value-added tax ("VAT") on the sale or importation of petroleum products in 2006. In addition, the Malaysian government has stated that its current system of import duties and sales taxes will eventually be replaced by a goods and service tax, although no firm timeline for these changes has been provided. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's business, financial condition and results of operations.

The Company may be adversely impacted by the fluctuations in the value of the Philippine Peso and the Ringgit Malaysia against the U.S. dollar.

A substantial portion of the Company's revenues is denominated in Philippine Pesos and Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, is denominated in U.S. dollars. In 2011 and the nine month period ended September 30, 2012, 87% and 62%, respectively, of the Company's revenues were denominated in Philippine Pesos, and, in the nine months ended September 30, 2012, 31% of its revenues were denominated in Ringgit Malaysia, while 90% and 61% of its cost of goods sold were denominated in U.S. dollars in 2011 and the nine months ended September 30, 2012, respectively. In addition, as of September 30, 2012, 17% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Since January 1, 2009, the value of the Peso against the U.S. dollar has fluctuated from a low of ₱ 49.056 per U.S. dollar on March 2, 2009 to a high of ₱ 40.550 per U.S. dollar on January 15, 2013. In the same period, the value of the Ringgit Malaysia against the U.S. dollar has fluctuated from a low of RM 3.728 per U.S. dollar on March 2, 2009 to a high of RM 2.939 per U.S. dollar on August 1, 2011. While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

Sales to PAL, PSALM, NAPOCOR and PANASIA comprise a significant amount of the Company's sales.

Sales to Philippine Airlines, Inc. ("PAL"), the Power Sector Assets and Liabilities Management Corporation ("PSALM"), the National Power Corporation ("NAPOCOR"), the state-owned national electricity generation company of the Philippines, and PanAsia Energy Holdings Incorporated ("PANASIA") accounted for approximately 3%, 2%, 1% and 0.5%, respectively, of the Company's total sales volume in 2011 and 3%, 2%, 1% and 1%, respectively, of the Company's total sales volume for the nine months ended September 30, 2012. The Company supplied approximately 44% and 50% of the fuel requirements of NAPOCOR and PSALM, respectively, in 2011 and 62% and 16%, respectively, for the nine months ended September 30, 2012, as stipulated in the relevant supply contracts. The contracts for supplying NAPOCOR's and PSALM's fuel requirements are allocated through an annual bidding process among industry market participants. There can be no assurance that the Company will continue to be able to supply the fuel requirements of these companies. In addition, in October 2008, as mandated by the Electric Power Industry Reform Act of 2001 ("EPIRA"), NAPOCOR transferred substantially all of its assets to PSALM. NAPOCOR continues to operate and maintain the transferred power generation assets pursuant to an operation and maintenance agreement with PSALM. NAPOCOR will only continue to manage the power generation assets until they are sold by PSALM pursuant to its EPIRA mandate to privatize such assets. The loss or reduction of business from PAL, NAPOCOR, PSALM or PANASIA could adversely impact the Company's sales and results of operations.

The Company depends on certain key personnel, and its business and growth prospects may be disrupted if their services were lost.

The Company's future success is dependent upon the continued service of its key executives and employees. The Company cannot assure potential investors that it will be able to retain these executives and employees. If many of its key personnel were unable or unwilling to continue in their present positions, or if they joined a competitor, the Company may not be able to replace them easily, and the business of the Company may be significantly disrupted and its financial condition and results of operations may be materially and adversely affected.

The Company's controlling shareholder may have interests that may not be the same as those of other shareholders.

San Miguel Corporation ("SMC"), directly and indirectly, holds an effective 68.26% of the Company's outstanding common equity as of December 31, 2012. See "Principal Shareholders." SMC is not obligated to provide the Company with financial support or to exercise its rights as a shareholder in the Company's best interests or the best interests of the Company's other shareholders. If the interests of SMC conflict with the interests of the Company, the Company could be disadvantaged by the actions that SMC chooses to pursue.

In addition, while the Company expects to benefit from its ongoing relationship with SMC and its subsidiaries and affiliates through their global reach and relationships, there can be no assurance that SMC will allow the Company to have access to such benefits.

If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its recorded liabilities, the Company's financial condition and results of operations may be materially adversely affected.

The Company uses a combination of self-insurance, reinsurance and purchased insurance to cover its properties and certain potential liabilities. The Company's insurance coverage includes property, marine cargo and third party liability. The Company's business interruption insurance has a US$94.5 million limit that covers losses at the Limay Refinery. All insurance policies relating to the Company's Philippine operations are written by its wholly-owned insurance subsidiary, Petrogen Insurance Corporation ("Petrogen"). The majority of the risks insured by Petrogen are reinsured with Standard & Poor's A-rated foreign insurers through Overseas Ventures Insurance Corporation Ltd. ("Ovincor"), Petron's Bermuda-based captive insurance subsidiary. For its Malaysian operations, the Company purchases insurance from Malaysian insurance companies, consistent with Malaysian law. The Company estimates the liabilities associated with the risks retained by it, in part, by considering historical claims, experience and other actuarial assumptions which, by their nature, are subject to a degree of uncertainty and variability. Among the causes of this uncertainty and variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations and actual claim settlement patterns. If the number or severity of claims for which the Company is self-insured increases, or if it is required to accrue or pay additional amounts because the claims prove to be more severe than its original assessments, the Company's financial condition, results of operations and cash flows may be materially adversely affected.

Risks Relating to the Philippines and Malaysia

The Company's business and sales may be negatively affected by slow growth rates and economic instability in the Philippines and Malaysia, as well as globally.

The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. In 2011 and the nine months ended September 30, 2012, the Company derived approximately 89.7% and 64.5%, respectively, of its sales from its Philippine operations, and in the nine months ended September 30, 2012, the Company derived approximately 30.9% of its sales from its Malaysian operations, which the Company acquired in March 2012. The Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. As a result of the Company's acquisition of ExxonMobil's downstream business in

Malaysia, the Company also expects that, going forward, its product demand and results of operations will be influenced to a significant degree by the general state of the Malaysian economy and the overall levels of business activity in Malaysia. The Philippines and Malaysia have both experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine or Malaysian consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations. Furthermore, a re-emergence of severe acute respiratory syndrome or avian influenza (commonly known as bird flu) or the emergence of another similar disease in the Philippines or Malaysia or other countries in Southeast Asia could adversely affect the Philippine and Malaysian economies, which could materially and adversely affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2008, experienced, and may continue to experience, significant dislocations and liquidity disruptions. Recently, there has been particular focus on the potential for sovereign debt defaults and banking failures in Europe. The recent volatility in global financial markets has added to the uncertainty of the global economic outlook, and a number of countries are experiencing slowing economic activity. In the past, the Philippine and Malaysian economies and the securities of Philippine companies have been influenced, to varying degrees, by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The current uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines and/or Malaysia to deteriorate. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products and materially reduce the Company's revenues, profitability and cash flows. Moreover, there can be no assurance that current or future Philippine and Malaysian governmental policies will continue to be conducive to sustaining economic growth.

Political instability, acts of terrorism or military conflict in the Philippines or Malaysia could have a destabilizing effect and may have a negative effect on the Company.

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future, and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Philippines has also been subject to a number of terrorist attacks since 2000, and the Philippine armed forces have been in conflict with groups that have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Political instability, acts of terrorism, violent crime and similar events could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company may also be affected by political and social developments in Malaysia, as well as changes in the political leadership and/or government policies in Malaysia. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that impose and/or increase restrictions on imports, the conduct of business, the repatriation of profits, the imposition of capital controls, changes in interest rates and the taxation of goods and services. There can be no assurance that any changes in such regulations or politics imposed by the Malaysian government from time to time will not have an adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, terrorist attacks and other acts of violence or war in Malaysia may negatively affect the Malaysian economy, resulting in a loss of consumer confidence and reduced demand for the Company's products in Malaysia, which could adversely affect the Company's business, financial condition, results of operations and prospects.

The occurrence of natural catastrophes or electricity blackouts may materially disrupt the Company's operations.

The Philippines and Malaysia have both experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt the Company's ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine and Malaysian economies. The Philippines and Malaysia have both also experienced electricity blackouts resulting from insufficient power generation, faulty transmission lines and other disruptions, such as typhoons or other tropical storms. These types of events may materially disrupt the Company's business and operations and could have a material adverse effect on the Company's financial condition and results of operations. The Company has insurance policies that cover business interruption and material damage to its facilities caused by natural catastrophes. However, the Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or electricity blackouts, including possible business interruptions.

Investors may face difficulties enforcing judgments against the Company.

The Company is organized under the laws of the Philippines and most of its assets are located in the Philippines and Malaysia. It may be difficult for investors to effect service of process outside the Philippines upon the Company with respect to claims pertaining to the Securities. Moreover, it may be difficult for investors to enforce in the Philippines or Malaysia judgments against the Company obtained outside the Philippines or Malaysia, as applicable, in any actions pertaining to the Securities, particularly with respect to actions for claims to which the Company has not consented to service of process outside the Philippines or Malaysia, as the case may be. In addition, substantially all of the directors and senior management of the Company are residents of the Philippines, and all or a substantial portion of the assets of these persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons outside the Philippines or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines.

The Philippines is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

A judgment obtained for a fixed sum in a court of a reciprocating country (as listed in the Enforcement Act) may be recognized and enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the Enforcement Act within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings, so long as the judgment: (i) is not inconsistent with public policy in Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; (vii) could be enforced by execution in the country of that original court; (viii) is for a fixed sum; (ix) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and (x) is vested in the person by whom the application for registration was made.

Under current Malaysian law, any judgment obtained for a fixed sum in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments, after due service of process, may, at the discretion of the courts of Malaysia, be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defenses, including, but not limited to, defenses based on the conditions listed above. A money judgment by the courts of a non-reciprocating country may be recognized by Malaysian courts and be enforced by way of summary judgment without re-examination of the issues in dispute provided that the judgment: (i) is not inconsistent with public policy in

Malaysia; (ii) was not given or obtained by fraud or duress or in a manner contrary to natural justice; (iii) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty; (iv) was of a court of competent jurisdiction of such jurisdiction; (v) has not been wholly satisfied; (vi) is final and conclusive between the parties; and (vii) is for a fixed sum.

If foreign exchange controls were to be imposed, the Company's ability to access foreign currency to purchase raw materials and equipment and to service foreign currency denominated debt obligations, including its obligations under the Securities, could be adversely affected.

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the Bangko Sentral ng Pilipinas (the "BSP"), with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

There are foreign exchange policies in Malaysia that support the monitoring of capital flows into and out of the country in order to preserve its financial and economic stability. The foreign exchange policies in Malaysia are governed by the Exchange Control Act, 1953 and are administered by the Foreign Exchange Administration, an arm of Bank Negara Malaysia ("BNM"), which is the central bank of Malaysia. The Controller of Foreign Exchange (who is also the governor of the BNM) is empowered to regulate foreign exchange dealings in Malaysia and publishes exchange control notices from time to time, pursuant to which certain the rules are prescribed and general and specific permissions are granted. The foreign exchange policies monitor and regulate both residents and non-residents. A non-resident is defined as (i) any person other than a resident, (ii) an overseas branch, overseas subsidiary, regional office, sales office or representative office of a resident company, (iii) foreign embassies, Consulates, High Commissions or supranational or international organizations recognized by the Malaysian government or (iv) a Malaysian citizen who has obtained permanent resident status of a territory outside Malaysia and is residing outside Malaysia. Under the current Exchange Control Notices of Malaysia and Foreign Exchange Administration Policies issued by the BNM, there is no restriction for non-residents to invest in Malaysia in any form of Ringgit assets, and non-residents are free to repatriate any amount of funds in Malaysia at any time, including capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investment in Malaysia, subject to the applicable reporting requirements and any withholding tax.

The Company purchases some critical raw materials, particularly crude oil, and some technically advanced equipment from abroad and needs foreign currency to make these purchases. In addition, the Company has incurred and may continue to incur foreign currency denominated obligations, including the Securities, and Peso-denominated debt obligations that are payable in foreign currency. There can be no assurance that the Philippine government or the Malaysian Foreign Exchange Administration will not impose economic or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail the Company's ability to purchase crude oil, materials and equipment from outside the Philippines or Malaysia in U.S. dollars and its ability to make principal and interest payments in U.S. dollars on its foreign currency-denominated obligations, including its obligations under the Securities, or Peso-denominated debt obligations that are payable in foreign currency, which could materially and adversely affect its financial condition and results of operations.

Risks Relating to the Securities

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this offering circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or distribution payments is different from the potential investor's currency;

- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are undated securities and investors have no right to require redemption.

The Securities are undated and have no fixed final maturity date. Holders have no right to require the Company to redeem the Securities at any time and they can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, holders of Securities should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

The Securities are subordinated obligations.

The obligations of the Company under the Securities and the Trust Deed (as defined below) will constitute unsecured and subordinated obligations of the Company. In the event of the winding-up of the Company, the rights and claims of holders of the Securities will (subject to and to the extent permitted by applicable law) rank senior to the holders of all Junior Securities (as defined below) of the Company and *pari passu* with each other and with the holders of all Parity Securities (as defined below) of the Company, but junior to the claims of all other creditors.

In the event of a winding-up of the Company, there is a substantial risk that an investor in the Securities will lose all of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Securities.

There may be insufficient distributions upon liquidation.

Under Philippine law, upon any voluntary or involuntary dissolution, liquidation or winding up of the Company, Securityholders will be entitled only to the available assets of the Company remaining after the indebtedness of the Company is satisfied. If any such assets are insufficient to pay the amounts due on the Securities, then the Securityholders shall share ratably in any such distribution of assets in proportion to the amounts to which they would otherwise be respectively entitled. In the event of liquidation or winding-up, the unsubordinated obligations of the Company shall be preferred over the claims of Securityholders in respect of the Securities, which Securities shall rank *pari passu* with each other and the Company's Parity Securities.

Holders may not receive Distribution payments if the Company elects to defer Distribution payments.

The Company may, at its sole discretion and subject to certain conditions, elect to defer any scheduled Distributions on the Securities for any period of time. The Company is not subject to any limits as to the number of times Distributions can be deferred. Although, following a deferral, Arrears of Distributions are cumulative, subject to the Terms and Conditions of the Securities, the Company may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Securityholders. Any such deferral of Distributions shall not constitute a default for any purpose unless, in the case of a deferral, such payment is required in accordance with Condition 4.7 (*Payment of Arrears of Distribution*).

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Company's financial condition.

The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events.

The Securities are redeemable at the option of the Company, in whole but not in part, on the Step Up Date or any Distribution Payment Date falling after the Step Up Date at 100% of their principal amount together with all other outstanding amounts due under the Securities accrued to the date fixed for redemption.

The Company also has the right to redeem the Securities upon the occurrence of certain changes in Philippine tax law requiring the payment of Additional Amounts (as defined below). In addition, the Securities may be redeemed (in whole but not in part) at the option of the Company (A) upon the occurrence of a Change of Control Event (as defined below) (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined below) or (ii) on or at any time after the Step Up Date at the Redemption Price, (B) upon the occurrence and continuation of a Reference Security Default Event at any time at the Redemption Price, (C) upon the occurrence and continuation of an Accounting Event (i) at anytime prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined below) or (ii) on or at any time after the Step Up Date at the Redemption Price, or (D) in the event 25% or less of the aggregate principal amount of the Securities issued on the Issue Date remain outstanding (i) at any time prior to (but excluding) the Step Up Date at the Special Redemption Price (as defined below) or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1 (*Notices to the Securityholders*).

The date on which the Company elects to redeem the Securities may not accord with the preference of individual Securityholders. This may be disadvantageous to the Securityholders in light of market conditions or the individual circumstances of the holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There are limited remedies for default under the Securities.

Any scheduled Distribution will not be due if the Company elects to defer that Distribution pursuant to the Terms and Conditions of the Securities. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment has become due and the Company fails to make the payment when due. The only remedy against the Company available to the Trustee or (where the Trustee has failed to proceed against the Company, as provided in the Terms and Conditions of the Securities) any Securityholder for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of the Company's payment obligations arising from the Securities and the Trust Deed.

The adoption of new accounting policies of PFRS may have a significant impact on the Company's financial condition and results of operations and/or may result in a change to the accounting treatment of the Securities, which could give the Company the right to elect to redeem the Securities.

The Financial Reporting Standard Council ("FRSC") is continuing its policy of issuing PFRS and interpretations which are substantially based on International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"). FRSC has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB. Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new PFRS will not have a significant impact on the Company's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, PFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of the Company, and will give the Company the right to elect to redeem the Securities. See "—The Securities may be redeemed at the Company's option on the Step Up Date or any Distribution Payment Date falling after the Step Up Date or upon the occurrence of certain other events."

The applicable Distribution Rate may decline on any Reset Date.

The Distribution Rate will be reset on each Reset Date by reference to the then Treasury Rate (as defined below). Accordingly, a Securityholder is exposed to the risk of a fluctuating Distribution Rate and uncertain distribution income. A fluctuating Distribution Rate makes it impossible to determine the yield of the Securities with respect to any Reset Period in advance.

The Company and its subsidiaries may incur substantial indebtedness in the future and may not be able to generate sufficient cash flows to meet its debt service obligations.

The Company may from time to time and without prior consultation of the holders of the Securities create and issue further Securities (see "Terms and Conditions of the Securities—Further Issues"). Furthermore, the Company and its subsidiaries may from time to time incur substantial additional indebtedness and contingent liabilities. Under the terms of the Securities, there is no restriction, contractual or otherwise, on the amount of Securities that the Company may further issue or securities or other liabilities that the Company and its subsidiaries may issue or incur and that rank senior to, or *pari passu* with, the Securities, except that the Issuer may not issue any Preferred Stock which ranks, or is expressed to rank, by its terms or by operation of law, senior to the Securities. If the Company or its subsidiaries incur additional debt, that could have important consequences to investors. For example, it could: (i) limit the Company's ability to satisfy its obligations under the Securities and other debt; (ii) increase the Company's vulnerability to adverse general economic and industry conditions; (iii) require the Company to dedicate a substantial portion of its cash flow from operations to servicing and repaying its indebtedness, thereby reducing the availability of its cash flow to fund working capital, planned capital expenditures and other general corporate purposes; (iv) limit the Company's flexibility in planning for or reacting to changes in its businesses and the industries in which it operates; (v) increase the cost of additional financing; and (vi) place the Company at a competitive disadvantage compared to its competitors that have less debt. If the Company's subsidiaries incur additional indebtedness, that could also have adverse effects on the subsidiaries similar to those described above, and therefore on the Company. The issue of any further Securities or such other securities, or the incurrence of any such other liabilities, may reduce the amount (if any) recoverable by holders of the Securities on a winding-up of the Company and may also have an adverse impact on the trading price of the Securities and/or the ability of Securityholders to sell them.

There has been a market for the New Securities for only a very limited time, an active trading market for the Securities may not develop or be sustained, and the trading price of the Securities could be materially and adversely affected.

The Original Securities were issued on February 6, 2013, and there was no trading market prior to that date. The Company has been advised that the Joint Lead Managers intend to make a market in the Securities, but that they are not obligated to do so and may discontinue such market making activity at any time without notice. The Company cannot predict whether an active trading market for the Securities will be sustained. The Securities could trade at prices that may be lower than the initial offering price for the New Securities. The price at which the Securities trade depends on many factors, including, but not limited to:

- prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- the Company's financial condition, historical financial performance and future prospects.

Application will be made for the listing of the New Securities on the Hong Kong Stock Exchange. Although the Original Securities are currently listed on the Hong Kong Stock Exchange, no assurance can be given that the application to the Hong Kong Stock Exchange for the New Securities will be approved or that the Company will be able to maintain a listing for the Securities or that a liquid trading market for the Securities will develop or continue. If an active market for the Securities fails to be sustained, the trading price of the Securities could be materially and adversely affected. Lack of a liquid or active trading market for the Securities may adversely affect the price of the Securities or may otherwise impede a holder's ability to dispose of the Securities.

The Company will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to debt or hybrid securities in certain other countries.

The Company will be subject to reporting obligations in respect of the New Securities to be listed on the Hong Kong Stock Exchange. The disclosure standards imposed by the Hong Kong Stock Exchange are different from those imposed by securities exchanges in other countries or regions, such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the New Securities are accustomed to.

Rights of the Securityholders may be altered without their consent.

The Trust Deed contains provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders, including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. The Trust Deed also provides that the Trustee may, without consent of the Securityholders, agree to any modification of any provision of the Securities which is not materially prejudicial to the interests of the Securityholders or which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law, in the circumstances described in "Terms and Conditions of the Securities—Meetings of Securityholders, Modification, Waiver, Authorisation and Determination—Modification, Waiver, Authorisation and Determination."

The Trustee may decline to take actions requested by the Securityholders.

Under the Trust Deed, in certain circumstances, the Trustee may, at its sole discretion, request the Securityholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Securityholders. The Trustee shall not be obliged to take any such actions if no such indemnity or security or pre-funding is provided to its satisfaction. Even if the Securityholders agree to indemnify and/or provide security to and/or pre-fund the Trustee, the time taken to agree to the indemnity and/or security and/or pre-funding may have an impact as to when such action is taken. In addition, notwithstanding the provision of an indemnity or security or pre-funding to the Trustee, the Trustee may decline to take action requested by the Securityholders if it determines that such actions are not permitted under the terms of the Trust Deed or applicable law.

Risks Associated with the Presentation of Certain Information in this Offering Circular

Certain information contained herein is derived from unofficial publications.

Certain information in this offering circular relating to the Philippines, Malaysia and the industry in which the Company's business operates, including statistics relating to market size, is derived from various government and private publications. This offering circular also contains industry information based on publicly available sources. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines or Malaysia. Accordingly, investors should not place undue reliance on such information.

TERMS AND CONDITIONS OF THE SECURITIES

The following (other than any paragraph in italics), subject to alteration, are the terms and conditions of the New Securities, which will be endorsed on the Certificates issued in respect of the New Securities.

The issue of the US$250,000,000 Undated Subordinated Capital Securities (the **Securities**, which expression, unless the context otherwise requires, includes the Original Securities (as defined below) and any further Securities issued pursuant to Condition 9 and forming a single series with the Securities) of Petron Corporation (the **Issuer**) will constitute a further issuance of, and upon issuance will be consolidated and form a single series with, the US$500,000,000 Undated Subordinated Capital Securities of the Issuer issued on February 6, 2013 (the **Original Securities**). Upon issuance, the New Securities will rank *pari passu* with the Original Securities in all respects. The New Securities are constituted by a Trust Deed dated February 6, 2013 (the **Original Trust Deed**) as supplemented by a First Supplemental Trust Deed to be dated on or about March 11, 2013 (the **First Supplemental Trust Deed** and, together with the Original Trust Deed, the **Trust Deed**), each made between the Issuer and DB Trustees (Hong Kong) Limited (the **Trustee**, which expression includes its successor(s)) as trustee for the holders of the Securities (the **Securityholders**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement dated February 6, 2013 (the **Original Agency Agreement**) as supplemented by the First Supplemental Agency Agreement to be dated on or about March 11, 2013 (the **First Supplemental Agency Agreement** and, together with the Original Agency Agreement, the **Agency Agreement**), each made between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying agent (the **Principal Paying Agent**) and as transfer agent (the **Transfer Agent**), the other paying agents named therein (each a **Paying Agent** and, together with the Principal Paying Agent, the **Paying Agents**), Deutsche Bank AG, Hong Kong Branch as calculation agent (the **Calculation Agent**) and Deutsche Bank Luxembourg S.A. as the registrar (the **Registrar** and, together with the Paying Agents, the Transfer Agent and the Calculation Agent, the **Agents**). Copies of the Trust Deed and the Agency Agreement are available for inspection with reasonable prior notification during normal business hours by the Securityholders at the specified office of the Trustee and the Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Securities are issued in registered form in amounts of US$200,000 and integral multiples of US$1,000 in excess thereof (referred to as the **Principal Amount** of a Security). A certificate (each a **Certificate**) will be issued to each Securityholder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders (the **Register**) which the Issuer will procure to be kept by the Registrar.

The Securities are not issuable in bearer form.

1.2 Title

Title to the Securities passes only by registration in the Register. The person in whose name a Security is registered in the Register will (except as otherwise required by law) be treated as the absolute owner of that Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder. In these Conditions, **Securityholder** and (in relation to a Security) **Holder** mean the person in whose name a Security is registered in the Register.

For a description of the procedures for transferring title to book-entry interests in the Securities, see "Clearance and Settlement of the New Securities."

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Condition 2.4, a Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents (other than the Calculation Agent). In the case of a transfer of part only of a holding of Securities represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

For a description of certain restrictions on transfers of interests in the Securities, see "Subscription and Sale".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the Holder entitled to the transferred Securities to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent (as applicable) with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Securities not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred to the address of such Holder appearing on the Register or as specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer, the Registrar or any other Agent (other than the Calculation Agent) but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any other Agent (other than the Calculation Agent) may reasonably require) by the relevant Holder in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Securityholder may require the transfer of a Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal, premium (if any) or Distributions on that Security.

2.5 Regulations

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

3. STATUS, SUBORDINATION AND COVENANT

3.1 Status of the Securities

The Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and in priority of claims of holders of Junior Securities. The rights and claims of the Securityholders are subordinated as described in Condition 3.2.

3.2 Subordination

The claims of the Holders in respect of the Securities, including in respect of any claim to Arrears of Distribution, will, in the event of the Winding-Up of the Issuer (subject to and to the extent permitted by applicable law), rank:

(a) junior to all unsubordinated obligations of the Issuer (other than Parity Securities) and any obligation assumed by the Issuer under any guarantee of, or any indemnity in respect of, any obligation or commitment which rank or are expressed to rank senior to the Securities;

(b) *pari passu* with each other and with any Parity Securities of the Issuer; and

(c) senior only to the Issuer's Junior Securities.

3.3 No set-off

To the extent and in the manner permitted by applicable law, no Securityholder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Securities and each Securityholder will, by virtue of his holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3.4 No Voting Rights

The Securities do not confer any voting rights on Securityholders with respect to the common shares or any other class of share capital of the Issuer.

3.5 Covenant

The Issuer hereby undertakes not to issue any Preferred Stock which ranks, or is expressed to rank, by its terms or by operation of law, senior to the Securities.

4. DISTRIBUTIONS

4.1 Rate of Distribution

Subject to Condition 4.4 and Condition 4.5, the Securities will confer a right to receive distributions (**Distributions**):

(a) from the period commencing on (and including) the Issue Date to (but excluding) August 6, 2018 (the **Step Up Date**), at the Initial Rate of Distribution; and

(b) from (and including) each Reset Date (including the Step Up Date) to (but excluding) the immediately following Reset Date, at the relevant Reset Rate of Distribution (determined by the Calculation Agent on the relevant Reset Determination Date and notified to the Holders, the Principal Paying Agent and the Registrar),

payable semi-annually in arrear on February 6 and August 6 of each year (each a **Distribution Payment Date**) commencing on August 6, 2013.

Reset Date means the Step Up Date and any subsequent date which is the fifth anniversary of any Reset Date.

4.2 Distribution Accrual

Each Security will cease to accrue Distributions from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event Distributions shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Broken Amounts

When any Distribution is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

4.4 Increase in Rate of Distribution

Following the earlier to occur of:

(a) the date which is the 61st day, or if such day is not a Business Day the first Business Day thereafter, following a Change of Control Event; and

(b) the date on which a Reference Security Default Event occurs,

the Rate of Distribution will increase by 2.50% per annum with effect from the next Distribution Payment Date (or, if the relevant event occurs on or after the date that is five Business Days prior to the next Distribution Payment Date, the next following Distribution Payment Date). For the avoidance of doubt, an increase (if any) in the Rate of Distribution pursuant to this Condition 4.4 shall not occur more than once.

A **Change of Control Event** means the occurrence of any Person or group of related Persons, other than the Permitted Holders, being or becoming the beneficial owner(s), directly or indirectly, of a greater percentage of the total voting power of the outstanding Voting Stock of the Issuer than the aggregate percentage of the total voting power of the outstanding Voting Stock of the Issuer beneficially owned, directly or indirectly, by the Permitted Holders.

Permitted Holders mean any or all of the following: (a) San Miguel Corporation, (b) San Miguel Corporation Retirement Plan or any similar or successor employee retirement plan of San Miguel Corporation, (c) Petron Corporation Employees Retirement Plan or any similar or successor employee retirement plan of Petron Corporation, (d) SEA Refinery Corporation and (e) any Person the Voting Stock of which at least a majority is beneficially owned, directly or indirectly, by a Person specified in clauses (a), (b), (c) or (d) above.

Reference Security Default Event means an event of default occurs pursuant to condition 10(b) or 10(c) (Events of Default) of the Issuer's outstanding ₱20,000,000,000 7.0% PHP-Denominated Notes due 2017 Payable in U.S. dollars (the **Senior Notes**) (ISIN: XS0554144831) as a result of the Issuer's default in, non-compliance with or non-performance of condition 4 (Covenants of the Issuer) of the Senior Notes, as such Senior Notes are amended from time to time in accordance with condition 15 of the Senior Notes.

4.5 Optional Deferral of Distributions

(a) The Issuer may, in its sole and absolute discretion, on any day which is not less than five Business Days prior to any Distribution Payment Date, resolve to defer payment of any or all of the Distribution which would otherwise be payable on that Distribution Payment Date unless, during the 6 months ending on that scheduled Distribution Payment Date a Compulsory Distribution Payment Event has occurred (the **Deferral Election Event**). Any such deferred Distribution will constitute **Arrears of Distribution** and will not be due and payable until the relevant Payment Reference Date. Distributions will accrue on each Arrears of Distribution for so long as such Arrears of Distribution remains outstanding at the same Rate of Distribution as the Principal Amount of the Securities bears at such time and will be added to such Arrears of Distribution (and thereafter bear Distributions accordingly) on each Distribution Payment Date.

(b) The Issuer will notify the Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent of any deferral of Distribution not less than five Business Days prior to the relevant Distribution Payment Date (the **Deferral Election Notice**). Deferral of a Distribution pursuant to Condition 4.5(a) will not constitute a default by the Issuer or any other breach of its obligations under the Securities or the Trust Deed or for any other purpose.

(c) Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form scheduled to the Trust Deed signed by two duly Authorised Signatories of the Issuer confirming that no Compulsory Distribution Payment Event has occurred.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event in which event it shall be conclusive and binding on the Securityholders.

(d) The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distributions may be deferred pursuant to the provisions of Condition 4.5(a).

Compulsory Distribution Payment Event means (a) a discretionary dividend, distribution, interest or other payment has been paid or declared on or in respect of any Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or (b) at the discretion of the Issuer, any Junior Securities or Parity Securities of the Issuer have been redeemed, repurchased or otherwise acquired by the Issuer or any of its Subsidiaries.

4.6 Restrictions in the case of Deferral

If on any Distribution Payment Date, payment of all Distributions scheduled to be made on such date is not made in full by reason of the Issuer deferring such Distributions in accordance with the terms of the Securities, the Issuer shall not, and shall procure that none of its Subsidiaries will:

(a) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other payment is made on any class of Junior Securities or (except on a pro rata basis) Parity Securities of the Issuer, other than a dividend, distribution or other payment in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors and consultants of the Issuer; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration any of the Junior Securities or Parity Securities of the Issuer,

unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) the Issuer is permitted to do so with the consent of the Securityholders of at least a majority in aggregate principal amount of the Securities then outstanding. For the avoidance of doubt, nothing in Condition 4.6 shall restrict the ability of any Subsidiary of the Issuer to declare and pay dividends, advance loans or otherwise make payments to the Issuer.

4.7 Payment of Arrears of Distribution

(a) The Issuer may elect to pay Arrears of Distribution (in whole or in part) at any time on the giving of at least five Business Days' prior notice to Securityholders (in accordance with Condition 12.1), the Trustee and the Principal Paying Agent. If Arrears of Distribution have not been paid in full earlier, all outstanding Arrears of Distribution will become due and payable, and the Issuer must pay such outstanding Arrears of Distribution (including any amount of Distribution accrued thereon in accordance with Condition 4.5(a)), on the relevant Payment Reference Date (in accordance with Condition 6). Any partial payment of outstanding Arrears of Distribution by the Issuer shall be made on a pro rata basis between the Securityholders.

(b) **Payment Reference Date** means the date which is the earliest of:

(i) the date on which the Securities are redeemed in accordance with Condition 5;

(ii) the date on which an order is made for the Winding-Up of the Issuer;

(iii) the date on which the Issuer is in violation of Condition 4.6 or on the occurrence of a Compulsory Distribution Payment Event; and

(iv) the date of any substitution or modification of the Securities pursuant to Condition 13.

5. REDEMPTION AND PURCHASE

5.1 Redemption

The Securities have no fixed redemption date. Unless previously redeemed or purchased and cancelled as provided below, the Securities will mature on the date on which the corporate term of the Issuer expires in accordance with its constituent documents (including its articles of incorporation, which currently provide for the Issuer's corporate term to expire on December 22, 2016). If the corporate term of the Issuer is extended, the maturity date of the Securities will automatically and correspondingly be extended.

As of the date of this Offering Circular, the Issuer's articles of incorporation provide that its corporate term will expire on December 22, 2016 and the Issuer intends to extend its corporate term prior to such expiry. On November 12, 2012, a resolution of the board of directors of the Issuer was passed to amend the articles of incorporation of the Issuer to extend its corporate term until December 22, 2066. This amendment to the Issuer's articles of incorporation is subject to the approval of the shareholders of the Issuer and the Securities and Exchange Commission of the Republic of the Philippines.

5.2 Redemption at the option of the Issuer

Subject to applicable law, the Issuer may redeem the Securities (in whole but not in part) on:

(a) the Step Up Date; or

(b) any Distribution Payment Date falling after the Step Up Date,

in each case, at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

5.3 Early redemption due to a Gross-up Event

(a) If a Gross-up Event occurs, the Issuer may redeem the Securities (in whole but not in part) at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) No such notice of redemption may be given earlier than 45 calendar days prior to the earliest calendar day on which the Issuer would be for the first time obliged to pay the Additional Amounts in question on payments due in respect of the Securities.

(c) Prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Trustee:

(i) a certificate signed by any two executive officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that a Gross-up Event has occurred and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(ii) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-up Event,

and the Trustee shall be entitled to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Gross-up Event means that as a result of any change in, or amendment to, the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder, which change or amendment becomes effective on or after January 30, 2013 the Issuer has or will become obliged to pay Additional Amounts; *provided* that the payment obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided further* that where any Additional Amounts due in accordance with Condition 7 are in consequence of any change in the laws or regulations or rulings promulgated thereunder of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws or regulations or rulings promulgated thereunder after January 30, 2013, a Gross-Up Event shall have occurred only in the event that the rate of withholding or deduction required by such law, regulation or rulings promulgated thereunder, or such official interpretation or application thereof, is in excess of 30%.

5.4 Early redemption due to a Change of Control Event, Reference Security Default Event, or Accounting Event

(a) If a Change of Control Event occurs, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(b) If a Reference Security Default Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) at any time at the Redemption Price, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(c) If an Accounting Event occurs and is continuing, the Issuer may redeem the Securities (in whole but not in part) (i) at any time prior to but excluding the Step Up Date at the Special Redemption Price or (ii) on or at any time after the Step Up Date at the Redemption Price, in each case on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

(d) Such notice of redemption as provided in Conditions 5.4(a), 5.4(b), and 5.4(c) may only be given simultaneously with or after a notification by the Issuer in accordance with Condition 12.1 that a Change of Control Event, a Reference Security Default Event or an Accounting Event (as the case may be) has occurred.

An **Accounting Event** means that an opinion of a recognized accountancy firm of international standing has been delivered to the Issuer and the Trustee, stating the Securities may no longer be recorded as equity in the audited consolidated financial statements of the Issuer prepared in accordance with PFRS or other recognized accounting standards that the Issuer has adopted from time to time for the preparation of its audited consolidated financial statements and such event cannot be avoided by the Issuer taking reasonable measures available to it.

5.5 Purchase of Securities

The Issuer or any of its Subsidiaries may, in compliance with applicable laws, purchase Securities in any manner and at any price. Such acquired Securities may be surrendered for cancellation or held or resold.

5.6 Redemption of Securities in the case of minimal outstanding amounts

In the event that the Issuer and/or any of its Subsidiaries has, individually or in aggregate, purchased (and not resold) or redeemed Securities equal to or in excess of 75% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part):

(a) at any time prior to the Step Up Date, at the Special Redemption Price; or

(b) on or at any time after the Step Up Date, at the Redemption Price,

on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Securityholders in accordance with Condition 12.1.

6. PAYMENTS

6.1 Payments in respect of Securities

Payment of principal, premium (if any) and Distributions will be made by transfer to the registered account of the Securityholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and premium (if any) and payments of Distribution due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents (other than the Calculation Agent). Distributions on Securities due on a Distribution Payment Date will be paid to the holder shown on the Register at the close of business on the date being the 15th day before the relevant Distribution Payment Date (the **Record Date**).

For the purposes of this Condition, a Securityholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business, in the case of principal and premium (if any) and Distributions due otherwise than on a Distribution Payment Date, on the second Payment Business Day (as defined in Condition 6.4) before the due date for payment and, in the case of Distributions due on a Distribution Payment Date, on the relevant Record Date, and a Securityholder's **registered address** means its address appearing on the Register at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and Distributions on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

6.3 No commissions

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of Distributions due otherwise than on a Distribution Payment Date, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

Securityholders will not be entitled to any Distributions or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Securityholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition, **Payment Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City, Hong Kong and Metro Manila and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal, premium (if any) or Distributions which is due on the Securities is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or Distributions in fact paid.

6.6 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) so long as the Securities are listed on The Stock Exchange of Hong Kong Limited (the **HKEX**) and if the HKEX so requires, there will be a Paying Agent with a specified office in Hong Kong;

(c) the Issuer undertakes that it will ensure that, if the Securities are issued in definitive form, it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) there will at all times be a Registrar; and

(e) there will at all times be a Transfer Agent.

Notice of any termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 12.1.

7. TAXATION AND GROSS-UP

7.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In the event where such withholding or deduction is made by the Issuer at the rate of up to and including 30%, the Issuer will pay such additional amounts as will result in the receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required. In the event that the Issuer makes a deduction or withholding required by law in excess of 30%, the Issuer shall pay such additional amount (**Additional Amounts**) as will result in receipt by the Securityholders of such amounts as would have been received by them had no such withholding or deduction been required; except that no Additional Amounts will be payable in relation to any payment in respect of any Security:

(a) presented for payment (if applicable) by or on behalf of a Securityholder who is liable to the Taxes in respect of such Security by reason of their having some connection with any Relevant Jurisdiction other than the mere holding of the Security;

(b) presented for payment (if applicable) more than 30 days after the Relevant Date (as defined in Condition 7.2) except to the extent that a Holder of such Security would have been entitled to such Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 6.4);

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) where such withholding or deduction would not have been so imposed but for the failure by the Holder of such Security, after written request made to that Holder at least 30 days before any such withholding or deduction would be payable, by the Issuer, the Trustee or the Paying Agent, as applicable, to comply with any identification, information, documentation or other similar reporting requirement concerning its nationality, residence or connection with the Relevant Jurisdiction, which is required or imposed by a statute, regulation or published administrative interpretation of general application of the Relevant Jurisdiction as a precondition to reduction or exemption from such withholding or deduction; or

(e) presented for payment (if applicable) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

7.2 Interpretation

In these Conditions:

(a) The **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 12.1.

(b) The **Relevant Jurisdiction** means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or in the event of any substitution or other corporate action resulting in the Issuer being incorporated in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

7.3 Additional Amounts, principal and Distributions

Any reference in these Conditions to any amounts in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed. Unless the context otherwise requires, any reference in these Conditions to **principal** includes any installment amount or redemption amount and any other amounts in the nature of principal payable pursuant to these Conditions and **Distributions** includes all amounts payable pursuant to Condition 4 and any other amounts in the nature of distributions payable pursuant to these Conditions.

8. PRESCRIPTION

Securities will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of Distributions) from the Relevant Date in respect of the Securities subject to the provisions of Condition 6.

9. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Securityholders to create and issue further Securities or bonds either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Distributions thereon) and so that the same will be consolidated and form a single series with the Securities or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further Securities which are to form a single series with the Securities will be constituted by a deed supplemental to the Trust Deed.

10. NON-PAYMENT

10.1 Non-payment when due

Notwithstanding any of the provisions below in this Condition 10, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distributions, such Distributions will not be due if the Issuer has elected to defer Distributions in accordance with Condition 4.5. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer, in respect of any actual, reasonable and documented costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

10.2 Proceedings for Winding-Up

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (b) the Issuer fails to make payment in respect of the Securities for a period of 10 days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Securities and the Trustee may, subject to the provisions of Condition 10.4 and subject to and to the extent permitted by applicable law, institute proceedings for the Winding-Up of the Issuer, and/or prove in the Winding-Up of the Issuer, and/or claim in the liquidation of the Issuer, for such payment.

10.3 Enforcement

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4 the Trustee may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Securities (other than any payment obligation of the Issuer under or arising from the Securities or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

10.4 Entitlement of Trustee

The Trustee shall not and shall not be obliged to take any of the actions referred to in Condition 10.2 or 10.3 above against the Issuer to enforce the terms of the Trust Deed or the Securities unless (a) it shall have been so requested by an Extraordinary Resolution of the Securityholders or in writing by the Securityholders of at least one-quarter in principal amount of the Securities then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

10.5 Right of Securityholders

Securityholders are not entitled to proceed directly against the Issuer or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer or to prove in such Winding-Up unless the Trustee, having become so bound to proceed or being able to prove in such Winding-Up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Securityholders shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 Extent of Securityholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Securityholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities or under the Trust Deed.

11. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to Securityholders

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the Register and, so long as the Securities are listed on a stock exchange and the rules of that stock exchange so require, published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange. Any notice shall be deemed to have been given on the seventh day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

12.2 Notices from Securityholders

Notices to be given by any Securityholder must be in writing and given by lodging the same, together with any Certificate in respect of such Security or Securities, with the Registrar or, if the Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

13. SUBSTITUTION OR MODIFICATION TO REMEDY GROSS-UP EVENT OR ACCOUNTING EVENT

The Trustee may, without the consent of the Securityholders, agree with the Issuer to:

(a) the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Securities and the Trust Deed of any other company being a wholly owned or indirect Subsidiary of the Issuer; or

(b) the modification of these Conditions to the extent reasonably necessary,

in order to remedy a pending or existing Gross-Up Event or Accounting Event provided that:

(i) the Securities are unconditionally and irrevocably guaranteed by the Issuer in a manner which would give the Securityholders a status in a Winding-Up of the Issuer which is akin to the status Securityholders would have at that time in respect of a Winding-Up of the relevant issuer;

(ii) the Trustee is satisfied that the interests of the Securityholders will not be materially prejudiced by the substitution or modification; and

(iii) certain other conditions set out in the Trust Deed are complied with to the satisfaction of the Trustee.

14. MEETINGS OF SECURITYHOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

14.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer and shall be convened by it upon the request of Securityholders holding not less than 50.0% in principal amount of the Securities for the time being outstanding. Except where the business of such a meeting includes consideration of a Reserved Matter (as defined below), the quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing over 50.0% in principal amount of the Securities for the time being outstanding, or at any adjourned meeting, two or more persons being or representing Securityholders whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals:

(a) to modify the dates on which the Distribution is payable in respect of any Securities;

(b) to reduce or cancel the principal amount of, any premium payable on redemption of, or amount of Distributions on or to vary the method of calculating the Rate of Distribution on, any Securities;

(c) to change the currency of payment of any Securities; or

(d) to amend this provision or to modify the provisions concerning the quorum required at any meeting of the Securityholders or the majority required to pass an Extraordinary Resolution

(each of (a), (b), (c) and (d) above, a **Reserved Matter**),

in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75.0%., or at any adjourned such meeting not less than 25.0%., in principal amount of the Securities for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Securityholders or passed by way of electronic consent given by the Securityholders through the relevant clearing systems in accordance with the Trust Deed will be binding on all Securityholders, whether or not they are present at any meeting at which such resolution was passed. The vote required to pass an Extraordinary Resolution at any meeting of Securityholders duly convened and held in accordance with the Trust Deed is not less than two-thirds of the votes cast. The Trust Deed provides that a written resolution signed by or on behalf of the Holders of not less than 75.0% of the aggregate principal amount of Securities outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

The provisions of this Condition 14.1 are subject to the further provisions of the Trust Deed.

14.2 Modification, Waiver, Authorization and Determination

The Trustee may, without the consent of the Securityholders, agree to any modification of these Conditions or any of the provisions of the Trust Deed (a) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Securityholders or (b) which is of a formal, minor or technical nature or is to correct a manifest error or an error which, in the opinion of the Trustee, is proven or (c) to comply with mandatory provisions of law. In addition, the Trustee may, without the consent of the Securityholders, authorize or waive any breach or proposed breach of these Conditions or any of the provisions of the Trust Deed if, in the opinion of the Trustee, the interests of the Securityholders will not be materially prejudiced thereby.

14.3 Trustee to have Regard to Interests of Securityholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorization, determination or substitution), the Trustee must have regard to the general interests of the Securityholders as a class but must not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, must not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee will not be entitled to require from the Issuer, nor will any Securityholder be entitled to claim from the Issuer, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14.4 Notification to the Securityholders

Any modification, waiver, authorization, determination or substitution agreed to by the Trustee will be binding on the Securityholders and, unless the Trustee agrees otherwise, any modification or substitution will be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 12.1.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing law

The Trust Deed, the Agency Agreement, the Securities and any non-contractual obligations arising out or in connection with the Trust Deed, the Agency Agreement and the Securities, are governed by, and shall be construed in accordance with, English law, except that Clause 5.2 of the Trust Deed and Condition 3.2 are governed by and shall be construed in accordance with the laws of the Republic of the Philippines.

16.2 Jurisdiction of English courts

(a) The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Securities (including any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) and has accordingly submitted to the exclusive jurisdiction of the English courts.

(b) The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee or the Securityholders may take any suit, action or proceeding (referred to as **Proceedings**) arising out of, or in connection with the Trust Deed or the Securities (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed or the Securities) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

16.3 Appointment of process agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

Accounting Event has the meaning specified in Condition 5.4.

Additional Amounts has the meaning specified in Condition 7.1.

Agency Agreement has the meaning specified in the preamble to these Conditions.

Agent and Agents have the meaning specified in the preamble to these Conditions.

Arrears of Distribution has the meaning specified in Condition 4.5(a).

Authorised Signatory has the meaning given to it in the Trust Deed.

Business Day means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, New York and Metro Manila.

Calculation Agent has the meaning specified in the preamble to these Conditions.

Capital Stock means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

Certificate has the meaning specified in Condition 1.1.

Change of Control Event has the meaning given to it in Condition 4.4.

Common Stock means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or common shares, whether or not outstanding at the Issue Date, and include, without limitation, all series and classes of such common stock or common shares.

Compulsory Distribution Payment Event has the meaning specified in Condition 4.5.

Conditions means these terms and conditions of the Securities.

Deferral Election Event has the meaning specified in Condition 4.5(a).

Deferral Election Notice has the meaning specified in Condition 4.5(b).

Distribution Payment Date has the meaning specified in Condition 4.1.

Distributions has the meaning specified in Condition 4.1.

Extraordinary Resolution has the meaning given to it in the Trust Deed.

Gross-up Event has the meaning specified in Condition 5.3.

HKEX has the meaning specified in Condition 6.6.

Holder has the meaning specified in Condition 1.2.

Initial Credit Spread means 6.601%.

Initial Rate of Distribution means 7.50% per annum plus any increase pursuant to Condition 4.4.

Issue Date means February 6, 2013.

Issuer means Petron Corporation.

Junior Securities means the common shares of the Issuer and (i) any instrument, security or obligation issued or entered by the Issuer which ranks, or is expressed to rank, junior to the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer where the Issuer's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, junior to the Issuer's obligations under the Securities.

Parity Securities means: (i) any instrument, security (including Preferred Stock, which for the avoidance of doubt includes but is not limited to the 100,000,000 preferred shares (ISIN PHY6885F1141) of the Issuer issued and outstanding as of the Issue Date) or obligation issued or entered into by the Issuer which ranks, or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities; and (ii) any security guaranteed by, or subject to the benefit of an indemnity entered into by, the Issuer where the Issuer's obligations under the relevant guarantee or indemnity rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Securities.

Paying Agent has the meaning specified in the preamble to these Conditions.

Payment Business Day has the meaning specified in Condition 6.4.

Payment Reference Date has the meaning specified in Condition 4.7(b).

Permitted Holders has the meaning specified in Condition 4.4.

Person means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

PFRS means Philippine Financial Reporting Standards and includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretation Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) as in effect from time to time.

PHP or P means the lawful currency of the Republic of the Philippines.

Preferred Stock as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

Principal Amount has the meaning specified in Condition 1.1.

Principal Paying Agent has the meaning specified in the preamble to these Conditions.

Proceedings has the meaning specified in Condition 16.2(b).

Rate of Distribution means the Initial Rate of Distribution or the Reset Rate of Distribution, as applicable.

Record Date has the meaning specified in Condition 6.1.

Redemption Price means the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)), as applicable.

Reference Security Default Event has the meaning given to it in Condition 4.4.

Register has the meaning specified in Condition 1.1.

Registrar has the meaning given to it in the preamble to these Conditions.

Relevant Date has the meaning specified in Condition 7.2.

Relevant Jurisdiction has the meaning specified in Condition 7.2.

Reserved Matter has the meaning specified in Condition 14.1.

Reset Date has the meaning specified in Condition 4.1.

Reset Determination Date means, in relation to the calculation of a Reset Rate of Distribution, the second Business Day before the commencement of the relevant Reset Period.

Reset Period means the period from and including the Step Up Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

Reset Rate of Distribution in respect of any Reset Period means the Treasury Rate calculated on the Reset Determination Date in respect of that Reset Period plus the Initial Credit Spread and the Step Up Margin.

Securities has the meaning specified in the preamble to these Conditions.

Securityholders has the meaning specified in the preamble to these Conditions.

Senior Notes has the meaning specified in Condition 4.4.

Special Redemption Price means 101% of the Principal Amount of the Securities plus any accrued but unpaid Distributions and any Arrears of Distribution (including any amount of Distributions accrued thereon in accordance with Condition 4.5(a)).

Step Up Date has the meaning given to it in Condition 4.1(a).

Step Up Margin means 2.50% per annum.

Subsidiary or **Subsidiaries** means, with respect to any Person, any corporation, association or other business entity, more than 50.0% of the voting power of the outstanding Voting Stock of which is owned or controlled, directly or indirectly, by such Person and one or more other Subsidiaries of such Person. To be **controlled** by another means that the other (whether, directly or indirectly, and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has a power to control the affairs and policies of that company and **control** shall be construed accordingly.

Taxes has the meaning specified in Condition 7.1.

Transfer Agent has the meaning specified in the preamble to these Conditions.

Treasury Rate means the rate in percent per annum equal to the yield, under the heading that represents the average for the week immediately prior to the Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" (currently set out on the website http://www.federalreserve.gov/releases/h15/current/default.htm) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded non-inflation indexed U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities," for the maturity corresponding to five years. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, "Treasury Rate" shall be obtained from an internationally recognized investment bank selected by the Issuer.

Trust Deed has the meaning specified in the preamble to these Conditions.

Trustee has the meaning specified in the preamble to these Conditions.

Voting Stock means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Winding-Up means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, insolvency or similar proceedings in respect of the Issuer.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the New Securities in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the Securities set out in this offering circular. Terms defined in the Terms and Conditions of the Securities have the same meaning in the paragraphs below. The following is a summary of certain of those provisions:

ACCOUNTHOLDERS

For so long as all of the New Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such New Securities (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such New Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such New Securities (and the expression "Securityholders" and references to "holding of Securities" and to a "holder of Securities" shall be construed accordingly) for all purposes other than with respect to payments on such New Securities, the right to which shall be vested, as against the Company and the Trustee, solely in the nominee for the relevant clearing system (the "Relevant Nominee") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any New Security following its redemption or purchase by the Company or any of its subsidiaries will be effected by reduction in the aggregate principal amount of the New Securities in the register of Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Payments of principal and Distributions in respect of New Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of such New Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means a day on which Euroclear and Clearstream, Luxembourg are both open for business.

Distributions of amounts with respect to book-entry interests in the New Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that such payment has been made.

NOTICES

So long as all the New Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Terms and Conditions of the Securities. For so long as the New Securities are listed on the Hong Kong Stock Exchange, notices shall also be published in the manner required by the rules and regulations of the Hong Kong Stock Exchange.

REGISTRATION OF TITLE

Registration of title to New Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Company that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Trustee is not appointed by the Company within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances, title to a Security may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Terms and Conditions of the Securities, except that Definitive Certificates in respect of New Securities so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the New Securities will be effected through the records of Euroclear, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "Clearance and Settlement of the New Securities."

RECORD DATE

Distributions on New Securities due on a Distribution Payment Date and Arrears of Distribution (and distributions accrued thereon) will be paid to the holder shown on the register of Securityholders at the close of business on the date being the fifteenth day before the relevant Distribution Payment Date.

EXCHANGE RATES

The PDS, a computer network supervised by the BSP, through which the members of the Bankers Association of the Philippines effect spot and forward currency exchange transactions, was introduced in 1992. The PDS was adopted by the BSP as a means to monitor foreign exchange rates. The PDS Rate is the weighted average rate for the purchase of U.S. dollars with Pesos, which is quoted on the PDS and published in the BSP's Reference Exchange Rate Bulletin and the major Philippine financial press on the following business day. On September 30, 2012, the PDS Rate was ₱ 41.88 = US$1.00. On March 4, 2013, the closing spot rate quoted on the PDS was ₱ 40.775 = US$1.00.

The following table sets forth certain information concerning the PDS Rate between the Peso and the U.S. dollar for the periods and dates indicated, expressed in Peso per US$1.00:

Period	Period End	Average[(1)]	Low[(2)]	High[(3)]
2009	₱46.356	₱47.646	₱49.056	₱45.947
2010	₱43.885	₱45.131	₱46.983	₱42.516
2011	₱43.928	₱43.312	₱44.585	₱41.955
2012	₱41.192	₱42.249	₱44.246	₱40.862
2013 (through March 4)	₱40.778	₱40.706	₱41.078	₱40.569

Source: Reference Exchange Rate Bulletin, Treasury Department of the BSP.

(1) Simple average of daily closing exchange rates for the period.

(2) Lowest exchange rate for the period.

(3) Highest exchange rate for the period.

The following table sets forth certain information concerning the foreign exchange rate between the Ringgit Malaysia and the U.S. dollar for the periods and dates indicated, expressed in RM per US$1.00:

Period	Period End	Average[(1)]	Low[(2)]	High[(3)]
2009	RM3.43	RM3.52	RM3.36	RM3.73
2010	RM3.09	RM3.22	RM3.08	RM3.44
2011	RM3.17	RM3.06	RM2.94	RM3.21
2012	RM3.06	RM3.09	RM2.99	RM3.20
2013 (through March 4)	RM3.11	RM3.07	RM3.01	RM3.11

Source: Bank Negara Malaysia.

(1) Simple average of daily closing exchange rates for the period.

(2) Lowest exchange rate for the period.

(3) Highest exchange rate for the period.

USE OF PROCEEDS

The net proceeds from the issue of the New Securities, which will be approximately US$259,500,000 (including the amount paid by investors corresponding to accrued Distributions from, and including, February 6, 2013 to, but excluding, March 11, 2013 and after the deduction of commissions and estimated offering expenses), will be applied by the Company towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes.

CAPITALIZATION OF THE COMPANY

The following table sets out, in accordance with PFRS, the Company's total capitalization[1] as of September 30, 2012 and as adjusted to give effect to the issue of the Original Securities and the New Securities. This table should be read in conjunction with the Company's unaudited consolidated financial statements and the notes thereto included elsewhere in this offering circular. Except as described below, there has been no material change in the Company's capitalization since September 30, 2012.

	As of September 30, 2012		As of September 30, 2012	
	Actual	Actual	As Adjusted	As Adjusted
	(in millions of ₱)	(in millions of US$)[2]	(in millions of ₱)	(in millions of US$)[2]
Total long-term indebtedness	45,255	1,080.6	45,255	1,080.6
Equity:				
Common stock	9,375	223.9	9,375	223.9
Preferred stock[3]	100	2.4	100	2.4
Original Securities[4], [5]	—	—	20,793	496.5
New Securities[4], [5]	—	—	10,855	259.2
Additional paid-in capital	9,764	233.1	9,764	233.1
Other reserves[6]	(190)	(4.5)	(190)	(4.5)
Retained earnings	39,084	933.2	39,084	933.2
Total equity attributable to equity holders of the parent	58,133	1,388.1	89,781	2,143.8
Noncontrolling interest	17,063	407.4	17,063	407.4
Total equity	75,196	1,795.5	106,844	2,551.2
Total capitalization[4]	120,451	2,876.1	152,099	3,631.8

(1) Total capitalization constitutes long-term indebtedness (net of current portion of long-term debt) and equity.

(2) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(3) Preferred stock represents the 100,000,000 cumulative, non-voting, non-participating and non-convertible perpetual preferred shares of the Company. The Company may, at its option, redeem the preferred shares on the fifth anniversary of March 5, 2010 or on any dividend payment date thereafter in whole but not in part at a prescribed redemption price.

(4) Net of commissions.

(5) For the reader's convenience, the U.S. dollar amount has been translated to Philippine Pesos at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(6) Other reserves include unrealized fair value gains or losses on available-for-sale financial assets and exchange differences on translation of foreign operations.

In October 2012, the Company entered into a US$485 million five-year floating rate term banking facility. The Company made its first draw down under this facility of US$100 million in November 2012. The Company subsequently drew down an additional US$175 million in December 2012. In January 2013, the Company drew down an additional US$50 million and the balance of US$160 million.

On December 5, 2012, the Company paid a ₱ 2.382 per share dividend, or a total of ₱ 238.2 million, to its preferred stockholders. In addition, on August 9, 2012, the Company's Board of Directors approved a ₱ 2.382 per share dividend, or a total of ₱ 238.2 million, to its preferred stockholders for the first quarter of 2013, payable on March 5, 2013.

On February 6, 2013, the Company issued the Original Securities.

SELECTED FINANCIAL INFORMATION

Prospective investors should read the selected consolidated financial information set forth below in conjunction with the Company's consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering circular. The selected financial information presented below for the year ended December 31, 2009 was derived from the consolidated financial statements of the Company, audited by Punongbayan & Araullo, a member firm within Grant Thornton International Ltd., and the selected financial information for the two years ended December 31, 2010 and 2011 was derived from the consolidated financial statements of the Company, audited by Manabat Sanagustin & Co., a member firm of KPMG. The selected financial information presented below for the nine months ended September 30, 2011 and 2012 was derived from the unaudited condensed consolidated interim financial statements of the Company, reviewed by Manabat Sanagustin & Co., a member firm of KPMG. The Company's financial information included in this offering circular has been prepared in accordance with PFRS.

In 2010, Petron changed the accounting policy for its retirement benefit plan to align it to that of SMC. Previously, the Company recognized all actuarial gains and losses ("AGL") arising from changes in the assumptions used by the actuary in calculating the retirement liability at reporting dates in other comprehensive income as a permitted alternative under PAS 19 *Employee Benefits*. The change in accounting policy resulted in the application of the "corridor approach" in PAS 19, whereby Petron now recognizes AGL in profit or loss over the remaining working lives of the employees participating in the plan when the net cumulative unrecognized AGL at the end of the previous reporting year exceeded the greater of 10% of the present value of the defined benefit obligation or the fair value of the plan assets. This change in accounting policy was accounted for retrospectively and is reflected in the comparative information as of and for the year ended December 31, 2009 included in this offering circular.

Selected Consolidated Statement of Income Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011(1)	2011	2012(2)	2012(1)
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Sales	176,531	229,094	273,956	6,541.5	201,929	307,341	7,338.6
Cost of goods sold	(161,583)	(209,280)	(250,826)	(5,989.2)	(183,638)	(293,895)	(7,017.6)
Gross profit	14,948	19,814	23,130	552.3	18,291	13,446	321.0
Selling and administrative expenses	(5,748)	(7,303)	(8,296)	(198.1)	(4,856)	(6,906)	(164.9)
Interest expense and other financing charges	(4,251)	(4,297)	(5,124)	(122.3)	(3,879)	(5,760)	(137.5)
Interest income	205	827	1,380	33.0	1,007	873	20.8
Share in net loss of associates	—	(151)	(137)	(3.3)	(169)	(4)	(0.1)
Other income (charges)—net	597	1,409	168	4.0	(281)	(539)	(12.9)
Income before tax	5,751	10,299	11,121	265.5	10,113	1,110	26.4
Tax expense	(1,492)	(2,375)	(2,636)	(62.9)	(2,513)	(178)	(4.3)
Net income	4,259	7,924	8,485	202.7	7,600	932	22.1

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Selected Consolidated Statement of Financial Position Data

	(Audited) As of and for the years ended December 31, 2010	2011	2011(1)	(Unaudited) As of and for the nine months ended September 30, 2012(2)	2012(1)
	(in millions of ₱)		(in millions of US$)	(in millions of ₱)	(in millions of US$)
Current assets:					
Cash and cash equivalents	43,984	23,823	568.8	21,627	516.4
Financial assets at fair value through profit or loss	227	237	5.7	158	3.8
Available-for-sale investments	178	—	—	—	—
Trade and other receivables—net	24,266	26,605	635.3	43,972	1,050.0
Inventories—net	28,145	37,763	901.7	60,974	1,455.9
Other current assets	4,286	8,178	195.3	11,807	281.9
	101,086	96,606	2,306.7	138,538	3,308.0
Assets held for sale	823	10	0.2	10	0.2
Total current assets	101,909	96,616	2,307.0	138,548	3,308.2
Non-current assets:					
Available-for-sale investments	983	1,036	24.7	927	22.1
Investment in an associate	804	2,505	59.8	1,155	27.6
Property, plant and equipment—net	34,957	50,446	1,204.5	84,611	2,020.3
Investment properties—net	119	794	19.0	726	17.3
Deferred tax assets—net	28	15	0.4	49	1.2
Goodwill	—	—	—	10,429	249.0
Other noncurrent assets	23,016	24,383	582.2	19,000	453.7
Total noncurrent assets	59,907	79,179	1,890.6	116,897	2,791.2
Total assets	161,816	175,795	4,197.6	255,445	6,099.5
Current liabilities:					
Short-term loans	32,457	40,593	969.3	74,293	1,773.9
Liabilities for crude oil and petroleum product importation	11,194	13,842	330.5	44,435	1,061.0
Trade and other payables	6,744	7,381	176.2	10,142	242.2
Derivative liabilities	30	55	1.3	81	1.9
Income tax payable	14	78	1.9	72	1.7
Current portion of long-term debts—net	11,517	4,124	98.5	73	1.7
Total current liabilities	61,956	66,073	1,577.7	129,096	3,082.5
Non-current liabilities:					
Long-term debts—net of current portion	42,885	45,744	1,092.3	45,255	1,080.6
Retirement benefits liability	249	671	16.0	1,473	35.2
Deferred tax liabilities—net	1,958	1,819	43.4	2,691	64.3
Asset retirement obligation	815	1,061	25.3	1,078	25.7
Other noncurrent liabilities	609	740	17.7	656	15.7
Total noncurrent liabilities	46,516	50,035	1,194.7	51,153	1,221.4
Total liabilities	108,472	116,108	2,772.4	180,249	4,303.9
Equity attributable to equity holders of the parent:					
Preferred stock	100	100	2.4	100	2.4
Common stock	9,375	9,375	223.9	9,375	223.9
Additional paid-in capital—preferred	9,764	9,764	233.1	9,764	233.1
Retained earnings	33,748	40,088	957.2	39,084	933.2
Other reserves	83	70	1.7	(190)	(4.5)
Total equity attributable to equity holders of the Parent	53,070	59,397	1,418.3	58,133	1,388.1
Noncontrolling interest	274	290	6.9	17,063	407.4
Total equity	53,344	59,687	1,425.2	75,196	1,795.5
Total liabilities and equity	161,816	175,795	4,197.6	255,445	6,099.5

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Selected Consolidated Statement of Cash Flows Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011(1)	2011	2012(2)	2012(1)
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net cash flows provided by (used in) operating activities	4,652	17,453	790	18.9	(641)	3,415	81.5
Net cash flows used in investing activities	(1,693)	(21,241)	(22,637)	(540.5)	(13,057)	(32,974)	(787.3)
Net cash flows provided by (used in) financing activities	(2,736)	34,598	1,658	39.6	(9,947)	27,451	655.5
Effect of exchange rate changes on cash and cash equivalents	(65)	189	28	0.7	60	(88)	(2.1)
Cash and cash equivalents at beginning of period	12,827	12,985	43,984	1,050.2	43,984	23,823	568.8
Cash and cash equivalents at end of period	12,985	43,984	23,823	568.8	20,399	21,627	516.4

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Other Financial and Operating Data

	(Audited)				(Unaudited)		
	As of and for the years ended December 31,				As of and for the nine months ended September 30,		
	2009	2010	2011	2011(1)	2011	2012(2)	2012(1)
	(in millions of ₱ except sales volume and ratios)			(in millions of US$)	(in millions of ₱ except sales volume and ratios)		(in millions of US$)
Sales volume ('000 bpd)	121	132	128	—	126	194	—
Net debt(3)	—	42,876	66,638	1,591	—	97,994	2,340
Ratio of total debt to equity	—	1.6	1.5	—	—	1.6	—
Ratio of net debt to equity	—	0.8	1.1	—	—	1.3	—
EBITDA(4)	13,687	15,968	18,553	443.0	15,727	9,719	232.1
Capital expenditures(5)	1,928	4,417	19,070	455.3	10,635	22,407	535.0
Total debt(6)	—	86,860	90,461	2,160.0	—	119,621	2,856.3
Ratio of EBITDA to net interest expense(7)	3.4	4.6	5.0	—	5.4	2.0	—
Ratio of net adjusted debt to EBITDA(8)	—	2.8	3.2	—	—	5.1	—

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

(2) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

(3) Net debt represents the sum of short-term loans, current portion of long-term debts–net and long-term debts–net of current portion, less cash and cash equivalents.

(4) The Company defines EBITDA as net income before net financing charges, tax expense and depreciation and amortization. Net financing charges include interest income, interest expense, foreign exchange gains/losses, bank charges, amortization of transaction costs and marked to market on freestanding currencies. EBITDA is not a standard measure of the Company's financial condition or liquidity under PFRS. EBITDA should not be considered in isolation or construed as an alternative to net income or any other performance measures derived in accordance with PFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. The Company has included EBITDA because it believes it is a useful supplement to net income in measuring its operating performance. Other companies in the industry may calculate EBITDA differently or may use it for different purposes than the Company does, limiting its usefulness as a comparative measure. The table below provides a reconciliation of net income to EBITDA.

(5) Capital expenditures represents the sum of purchases of property, plant and equipment and of intangible assets, net of disposals.

(6) Total debt consists of the sum of short-term loans, current portion of long-term debts-net and long-term debts-net of current portion.

(7) Net interest expense represents interest expense and other financing charges less interest income.

(8) Net adjusted debt represents short-term loans, plus current portion of long-term debts–net and long-term debts–net of current portion as of the period-end date, less cash and cash equivalents as of the period-end date. For the purpose of calculating this ratio, (A) for each of the years ended December 31, 2010 and 2011, short-term loans are calculated as the average of the monthly closing balances of short-term loans for the twelve months then ended and (B) for the nine months ended September 30, 2012, short-term loans are calculated as (x) the average of the monthly closing balances of short-term loans of the Company for the twelve months then ended including (y) (i) the monthly closing balances of short-term loans for the "Exxon Malaysia Entities" (as defined below) for the period from October 2011 to February 2012 less (ii) inter-company eliminations between or among the Exxon Malaysia Entities as if the Exxon Malaysia Entities were consolidated under a single holding company. Exxon Malaysia Entities refers to ExxonMobil Malaysia Sdn. Bhd, ExxonMobil Borneo Sdn. Bhd and Esso Malaysia Berhad. For the years ended December 31, 2010 and 2011, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the corresponding year then ended. For the nine months ended September 30, 2012, the ratio of net adjusted debt to EBITDA represents net adjusted debt as of the period-end date as described above divided by EBITDA for the twelve months ended September 30, 2012 (calculated as the sum of (A) (x) EBITDA of the Company for the nine months ended September 30, 2012 plus EBITDA of the Company for the year ended December 31, 2011 less (y) EBITDA of the Company for the nine months ended September 30, 2011 and (B) (x) EBITDA of the Exxon Malaysia Entities for the three months ended March 31, 2012 and (y) EBITDA of the Exxon Malaysia Entities for the three months ended December 31, 2011. EBITDA of the Exxon Malaysia Entities is calculated as the sum of EBITDA of each of the Exxon Malaysia Entities less inter-company eliminations between or among the Exxon Malaysia Entities as if the Exxon Malaysia Entities were consolidated under a single holding company. The method of calculation of EBITDA solely in relation to the Company's adjusted net debt to EBITDA ratio for the nine months ended September 30, 2012 is different from and not comparable with the method of calculation of EBITDA and related items as set out elsewhere in this offering circular.

	For the years ended December 31, (Audited)				For the nine months ended September 30, (Unaudited)		
	2009	2010	2011	2011(1)	2011	2012	2012(1)
	(in millions of ₱)			(in millions of US$)	(in millions of ₱)		(in millions of US$)
Net income	4,259	7,924	8,485	202.6	7,600	932	22.3
Add:							
Net financing charges	4,348	2,130	3,775	90.1	2,909	4,981	118.9
Tax expense	1,492	2,374	2,636	62.9	2,513	178	4.3
Depreciation and amortization	3,588	3,540	3,657	87.3	2,705	3,628	86.6
EBITDA	13,687	15,968	18,553	443.0	15,727	9,719	232.1

(1) For the reader's convenience, certain amounts in Philippine Pesos have been translated to U.S. dollars at a rate of ₱ 41.88 = US$1.00, the weighted average rate quoted on the PDS for the purchase of U.S. dollars with Philippine Pesos on September 30, 2012.

	For the three months ended March 31, 2012	For the three months ended June 30, 2012	For the three months ended September 30, 2012
	(Unaudited)	(Unaudited)	(Unaudited)
	(in millions of ₱)	(in millions of ₱)	(in millions of ₱)
Statement of Income Data:			
Sales	74,655	118,644	114,042
Cost of goods sold	68,244	116,083	109,568
Gross profit	6,411	2,561	4,474
Selling and administrative expenses	(1,793)	(2,780)	(2,333)
Interest expense and other financing charges	(1,516)	(2,564)	(1,680)
Interest income	340	309	224
Share in net income (loss) of associates	65	(43)	(26)
Other charges—net	(55)	(276)	(208)
Income before tax	3,452	(2,793)	451
Tax expense (benefit)	963	(736)	(49)
Net income (loss)	2,489	(2,057)	500

	For the three months ended March 31, 2012	For the three months ended June 30, 2012	For the three months ended September 30, 2012
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
	(in millions of ₱)	**(in millions of ₱)**	**(in millions of ₱)**
Net income (loss)	2,489	(2,057)	500
Add:			
Net financing charges	1,158	2,683	1,140
Tax expense (benefit)	963	(737)	(48)
Depreciation and amortization	969	1,315	1,344
EBITDA	5,579	1,204	2,936

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective investors should read the following discussion and analysis of the Company's financial condition and results of operations together with the consolidated financial statements of the Company and the notes thereto included elsewhere in this offering circular.

Overview

The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 38.8% of the Philippine oil market in terms of sales volume based on industry data from the Philippine Department of Energy ("DOE") for the nine months ended September 30, 2012. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.6% share of the Malaysian retail market for the nine months ended September 30, 2012, according to Metrix Research Sdn Bhd ("Metrix Research") estimates. In the Philippines, the Company's ISO-14001-certified Limay Refinery processes crude oil into a full range of petroleum products including gasoline, diesel, liquefied petroleum gas ("LPG"), jet fuel, kerosene, fuel oil and petrochemical feedstocks such as benzene, toluene, mixed xylene and propylene. Through its network of 2,015 retail service stations in the Philippines as of December 31, 2012, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through an extensive dealership network. The Company operates a lubricant oil blending plant at its oil terminal in Pandacan, Manila, the Philippines, where it manufactures lubricants and greases. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines. In 2009, 2010 and 2011, the Company's sales were ₱ 176.5 billion, ₱ 229.1 billion and ₱ 274.0 billion, respectively, and net income was ₱ 4.3 billion, ₱ 7.9 billion and ₱ 8.5 billion, respectively. In the first nine months of 2012, the Company's sales were ₱ 307.3 billion, compared with ₱ 201.9 billion in the first nine months of 2011. The Company's net income in the first nine months of 2012 was ₱ 0.9 billion, compared with ₱ 7.6 billion in the first nine months of 2011.

Factors affecting results of operations

The Company's financial condition and results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past and that the Company expects to affect its financial results in the future. Factors other than those set out below could also have a significant impact on the Company's financial condition and results of operations in the future.

Crude Oil Prices

Imported crude oil generally accounts for a large portion of the Company's total cost of goods sold. For example, in the nine months ended September 30, 2012, crude oil accounted for approximately 78% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices.

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. The prices at which the Company sells its products generally rise and fall in line with international crude oil prices. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company, as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices, as was the case in the second quarter of 2012, causing the Company to report a net loss for that period. See "Risk Factors—Risks Relating to the Company's

Business and Operations—Volatility of the price of crude oil may have a material adverse effect on the Company's business, results of operations and financial condition." Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. Fluctuations in the prices of crude oil affect the Company's margins. For example, Dubai crude oil prices declined from approximately US$124/bbl on March 14, 2012 to approximately US$89/bbl on June 22, 2012. As a result of the decline, the Company's EBITDA fell from ₱ 5.6 billion for the three months ended March 31, 2012 to ₱ 1.2 billion for the three months ended June 30, 2012. Crude oil prices subsequently recovered and stabilized at above US$100/bbl, which resulted in the Company recording a net profit in the third quarter of 2012 and its EBITDA recovering to ₱ 2.9 billion for the three months ended September 30, 2012. The Company's net income of ₱ 0.9 billion in the first nine months of 2012 was 87.7% lower than in the same period in 2011, primarily because this sharp drop in crude oil prices resulted in the Company being required to sell its refined petroleum products produced with higher-priced crude oil at lower prices in the second quarter of 2012.

The Company enters into commodity swaps and options to manage the price risks of crude oil and products. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner.

Governmental Regulation of Fuel Prices

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011." The Malaysian government subsidizes fuel prices so that increases in international crude oil prices are not borne fully by Malaysian consumers. The Company's financial condition thus depends to a significant degree on the Malaysian government's prompt payment of these fuel subsidies. The Malaysian government has publicly stated that the country's fuel prices will eventually be deregulated and set on a free market basis, as the current subsidy levels are unsustainable. However, no firm timeline has been provided for this deregulation. There can be no assurance that the Malaysian government will not decide to decrease or eliminate its subsidies or narrow their application in the future without a corresponding commensurate increase in or elimination of the price ceiling. A substantial portion of the Company's revenue is derived from sales of refined petroleum products in Malaysia that are subject to price controls. Accordingly, if international crude oil prices remain high or increase further and the Malaysian government decreases or eliminates the refined petroleum product subsidies without increasing or eliminating the refined petroleum product price ceilings, the Company's financial condition and results of operations would be materially and adversely affected.

With respect to the Philippines, the Philippine government has historically intervened from time to time to restrict increases in the prices of petroleum products. For example, on October 2, 2009, then President Gloria Macapagal-Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng." President Arroyo subsequently issued Executive Order 839 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009. As a result of this price freeze, the Company was unable to raise prices for its refined petroleum products, which adversely affected its profitability during the period until the price freeze was lifted on November 16, 2009. There can be no assurance that the Philippine government will not invoke similar measures or reinstate price regulation in the future, which may adversely affect the Company's results of operations.

Competition

The Company faces intense competition in the sale of petroleum and other related products in the markets in which it operates. The Company competes with a number of multinational, national, regional and local competitors in the oil industry. In the oil industry, competitive factors generally include price, product quality, customer service, operational efficiency and distribution network. The Company's sales and results of operations will be affected by its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations and its ability to comply with and obtain additional quotas from the Malaysian government.

Foreign Exchange Rates

A substantial portion of the Company's revenues is denominated in Philippine Pesos and Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, are denominated in U.S. dollars. In 2011 and the nine month period ended September 30, 2012, 87% and 62%, respectively, of the Company's revenues were denominated in Philippine Pesos, and, in the nine months ended September 30, 2012, 31% of its revenues were denominated in Ringgit Malaysia, while 90% and 61% of its cost of goods sold were denominated in U.S. dollars in 2011 and the nine months ended September 30, 2012, respectively. In addition, as of September 30, 2012, 17% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Since January 1, 2009, the value of the Peso against the U.S. dollar has fluctuated from a low of ₱ 49.056 per U.S. dollar on March 2, 2009 to a high of ₱ 40.550 per U.S. dollar on January 15, 2013. In the same period, the value of the Ringgit Malaysia against the U.S. dollar has fluctuated from a low of RM 3.728 per U.S. dollar on March 2, 2009 to a high of RM 2.939 per U.S. dollar on August 1, 2011. While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition.

Regulatory Environment

The Company's operations are subject to various taxes, duties and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes in recent years. For example, import duties for crude oil and petroleum products were increased on January 1, 2005 from 3% to 5%, and these duties were subsequently reduced to 0% with effect from July 4, 2010 (except for certain types of aviation gas). Furthermore, the Philippine government imposed an additional 12% VAT on the sale or importation of petroleum products in 2006. In addition, the Malaysian government has stated that its current system of import duties and sales taxes will eventually be replaced by a goods and service tax, although no firm timeline for these changes has been provided. There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on the Company's financial condition and results of operations.

In addition, the Company is subject to a number of national and local laws and regulations, including safety, health, environmental and zoning laws and regulations. Compliance with, and changes in, laws and regulations, including interpretations thereto, could result in substantial compliance costs and have other significant effects on the Company's business and operations.

Economic and Political Conditions in the Philippines and Malaysia

The Company is a Philippine corporation. The Company derives substantially all of its revenues and operating profits from sales of its products in the Philippines and Malaysia. As a result, the Company's business, financial condition, results of operations and prospects are substantially influenced by the economic and political conditions in those countries. Although the Philippine and Malaysian economies have both experienced stable growth in recent years, both economies have in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso or the Ringgit Malaysia, as applicable, and the imposition of exchange controls. Also, in the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. Sales of the Company's products are directly related to the strength of the Philippine and Malaysian economies (including overall growth levels and interest rates) and tend to decline during economic downturns. Any downturn in the Philippine or Malaysian economies may negatively affect consumer sentiment and general business conditions in the Philippines or Malaysia, as applicable, which may lead to a reduction in demand for the Company's products.

Capital Expenditure Projects and Financing

The Company's business is capital intensive and requires substantial capital expenditures. The Company has upgraded the Limay Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas, as well as enhancing the facilities at the Port Dickson Refinery and rebranding and refurbishing its retail service stations in Malaysia. See "Business—Capital Expenditures Plan" for more information about the Company's capital expenditure plans. If the Company fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to increase its sales and profits or to capture additional market share as planned, and its business, results of operations and financial condition could be adversely affected.

In addition, the Company has recently incurred a substantial amount of indebtedness to finance its capital expenditure projects, a significant portion of which is due in five years or less. As of September 30, 2012, the Company had outstanding long-term debt (net of current portion of long-term debt) of ₱ 45.3 billion. The increase in the Company's outstanding long-term debt in the past few years has resulted in significantly higher interest expenses and net financing costs. Net financing costs and other charges increased from ₱ 3.4 billion in 2009 to ₱ 3.7 billion in 2011 and ₱ 5.4 billion in the nine months ended September 30, 2012. To meet its debt servicing obligations, the Company will need to generate sufficient cash flows from its operations or arrange for additional financing.

Since the net proceeds of the Original Securities, the New Securities and the Company's other cash resources will be insufficient to fully finance its planned capital expenditures, the Company's ability to complete its planned capital expenditure projects and meet is debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. Failure by the Company to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition and results of operations.

Restatement of 2009 Audited Consolidated Financial Statements

In 2010, Petron changed the accounting policy for its retirement benefit plan to align it to that of SMC. Previously, the Company recognized all AGL arising from changes in the assumptions used by the actuary in calculating the retirement liability at reporting dates in other comprehensive income as a permitted alternative under PAS 19 *Employee Benefits*. The change in accounting policy resulted in the application of the "corridor approach" in PAS 19, whereby Petron now recognizes AGL in profit or loss over the remaining working lives of the employees participating in the plan when the net cumulative unrecognized AGL at the end of the previous reporting year exceeded the greater of 10% of the present value of the defined benefit obligation or the fair value of the plan assets. This change in accounting policy was accounted for retrospectively and is reflected in the comparative information as of and for the year ended December 31, 2009 included in this offering circular.

Joint Ventures

In March 2010, the Company made an investment in an associate, PAHL, owner of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. In December 2012, the Company converted certain loans it had made to PAHL to additional equity, which increased its stake in PAHL to 45.9%. The Company has an option to increase its stake in PAHL up to 51%. PPI owns a polypropylene plant located in Mariveles, Bataan in the Philippines.

In December 2010, the Company made an investment in an associate, Manila North Harbour Port Inc. ("MNHPI"), which is intended to serve as the vehicle for an alternative depot for Metro Manila and a venue to expand international sales of bunker fuel.

As the Company owns minority equity interests in each of PAHL and MNHPI, these entities are reflected in the Company's consolidated financial statements under the equity method of accounting.

Acquisitions of Subsidiaries

In August 2010, the Company made an investment in an associate, Limay Energen, a joint venture with Two San Isidro SIAI Assets, Inc., to undertake the cogeneration power plant project. See "Business—Capital Expenditures Plan—Capital Expenditure Projects—Cogeneration Power Plant." In April 2012, the Company completed the acquisition from Two San Isidro SIAI Assets, Inc. of its stake in Limay Energen. As the Company now wholly-owns Limay Energen, Limay Energen has been consolidated into the Company's consolidated financial statements since the first quarter of 2012.

In March 2012, the Company acquired 100% of the voting shares in each of Petron Fuel International Sdn. Bhd. (formerly known as ExxonMobil Malaysia Sdn. Bhd.) ("PFI Malaysia") and Petron Oil (M) Sdn. Bhd. (formerly known as ExxonMobil Borneo Sdn. Bhd.) ("POM") from Mobil International Petroleum Corporation and ExxonMobil International Holdings Inc., respectively.

In March 2012, the Company acquired 65% of the voting shares of Petron Malaysia Refining & Marketing Berhad (formerly known as Esso Malaysia Berhad) ("PMRMB") from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of PMRMB in May 2012 pursuant to a mandatory takeover offer.

As the Company wholly-owns PFI Malaysia and POM and holds 73.4% of the voting shares of PMRMB, these entities have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Selected Consolidated Financial Data

The table below sets out selected results of operations from the Company's consolidated financial statements for the periods indicated:

	For the years ended December 31, (Audited)							For the nine months ended September 30, (Unaudited)				
	2009	% of Sales	2010	% of Sales	2011	2011	% of Sales	2011	% of Sales	2012[(1)]	2012[(1)]	% of Sales
	(in millions of ₱ except %)					(in millions of US$ except %)		(in millions of ₱ except %)			(in millions of US$ except %)	
Sales	176,531	100%	229,094	100%	273,956	6,541.5	100%	201,929	100%	307,341	7,338.6	100%
Cost of goods sold	161,583	91.5%	209,280	91.4%	250,826	5,989.2	91.6%	183,638	90.9%	293,895	7,017.6	95.6%
Gross profit	14,948	8.5%	19,814	8.6%	23,130	552.3	8.4%	18,291	9.1%	13,446	321.0	4.4%
Selling and administrative expenses	(5,748)	3.3%	(7,303)	3.2%	(8,296)	(198.1)	3.0%	(4,856)	2.4%	(6,906)	(164.9)	2.2%
Interest expense and other financing charges	(4,251)	2.4%	(4,297)	1.9%	(5,124)	(122.3)	1.9%	(3,879)	1.9%	(5,760)	(137.5)	1.9%
Interest income	205	0.1%	827	0.4%	1,380	33.0	0.5%	1,007	0.5%	873	20.8	0.3%
Share in net loss of associates	—	—	(151)	0.1%	(137)	(3.3)	0.1%	(169)	0.1%	(4)	(0.1)	0.0%
Other income (charges)—net	597	0.3%	1,409	0.6%	168	4.0	0.1%	(281)	0.1%	(539)	(12.9)	0.2%
Income before tax	5,751	3.3%	10,299	4.4%	11,121	265.5	4.1%	10,113	5.0%	1,110	26.4	0.4%
Tax expense	(1,492)	0.8%	(2,375)	1.0%	(2,636)	(62.9)	1.0%	(2,513)	1.2%	(178)	(4.3)	0.1%
Net income	4,259	2.4%	7,924	3.4%	8,485	202.7	3.1%	7,600	3.8%	932	22.1	0.3%

(1) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Description of Revenue and Cost Items

Sales

The Company generates its sales primarily from the domestic and international sales of petroleum and other related products and the operation of service stations, retail outlets, restaurants and convenience stores. The Company also receives income from the collection of insurance premiums from its operation of insurance and reinsurance and the leasing of acquired real estate properties for petroleum, refining, storage and distribution facilities.

The Company derives the majority of its sales from the Philippines, although revenue from Malaysia has represented a significant portion of the total since the second quarter of 2012. The following table sets forth the Company's sales by geographic region for the periods indicated:

	For the years ended December 31,			For the nine months ended September 30,	
	2009	2010	2011	2011	2012
	(in millions of ₱)				
Philippines	163,696	207,199	245,809	180,891	198,254
Malaysia[(1)]	—	—	—	—	94,936
Export/International	12,835	21,895	28,147	21,038	14,151

(1) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Cost of Goods Sold

Cost of goods sold consists of:

- inventory costs, which are accounted for under the first-in first-out method, include the cost of petroleum, crude oil and other products that the Company uses in the production of its products, including LPG, gasoline, diesel, jet fuel, kerosene, fuel oil, mixed xylene, propylene, benzene and toluene, and inventory impairment charges;
- costs of distributing and transporting products;
- refinery operating expenses, which include repair and maintenance costs, purchased services and utilities, rent, taxes, insurance, depreciation costs relating to the Company's facilities and employee costs for employees involved in the production process;
- costs of imported finished petroleum products; and
- other cost of sales, including specific taxes and wharfage.

Selling and Administrative Expenses

Selling and administrative expenses consist of:

- employee costs, which include salary and wages, employee benefits and retirement costs for employees except those involved in production;
- costs for purchased services and utilities, which include professional fees, manpower services and communication expenses;

- depreciation and amortization costs, which relate to the depreciation of offices and equipment and investment properties;

- advertising and promotion expenses, which include the cost of media advertisements, event sponsorships, billboards and other marketing and promotional activities; and

- impairment losses on trade and other receivables.

Selling and administrative expenses also consist of repairs and maintenance expenses for the Company's offices, information technology systems and other office equipment, rental expenses, materials and office supplies, taxes and licenses and research and development costs.

Interest Income and Expense

Interest expense and other financing charges primarily include interest on short-term loans and long-term debt and other bank charges. Interest income primarily includes interest income from money market placements, government securities and trade receivables.

Other Income (Charges)—Net

Other income (charges)—net primarily includes foreign currency gains (net of foreign currency losses), commodity hedging gains (net of commodity hedging losses), mark-to-market gains (net of mark-to-market losses), rent, changes in fair value of financial assets, insurance claims and gains on settlement of asset retirement obligations.

Tax Expense

Tax expense primarily consists of income taxes payable by the Company and its operating subsidiaries in the jurisdictions in which they conduct their operations.

Segment Data

The Company's management identifies segments based on business and geographical locations. The major sources of revenues are recognized from the following business segments: petroleum, insurance, leasing and marketing, and the following geographic segments: Philippines and export/international. For a further description of the Company's segment results, including revenue and income information and certain asset and liability information, see note 2 to the Company's unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2012 and note 36 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering circular.

Significant Accounting Policies

The preparation of the Company's consolidated financial statements in accordance with PFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and the related notes. Actual results may differ from those estimates and assumptions. For a description of the Company's significant accounting policies, see note 1 to the Company's unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2012 and note 4 to the Company's audited consolidated financial statements as of and for the year ended December 31, 2011 included elsewhere in this offering circular.

Results of Operations

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Sales

Sales increased by 52.2% to ₱ 307.3 billion in the nine months ended September 30, 2012 from ₱ 201.9 billion in the nine months ended September 30, 2011, primarily as a result of a 55.1% increase in sales volume from 34.3 million barrels in the first nine months of 2011 to 53.2 million barrels in the first nine months of 2012, primarily due to the consolidation of the Company's Malaysian operations beginning from the second quarter of 2012. Sales volumes in the Philippines also increased by 4% in the first nine months of 2012 compared to the prior period, which was more than sufficient to offset a 38% decrease in exports, primarily as a result of a lower throughput of crude oil at the Limay Refinery and unscheduled temporary shutdowns of the benzene-toluene extraction unit at the Company's Limay Refinery in March 2012 to clean the extractive distillation tower, which caused the unit to cease operating for less than one month, and for about a week in June 2012 due to a leak in the unit's warm-up line. The increased revenues in the first nine months of 2012 were also partly the result of a 3% increase in the average selling price per barrel compared with the same period in 2011. The Company's Malaysian operations contributed 30.9% of the total revenues in the nine months ended September 30, 2012.

Cost of Goods Sold

Cost of goods sold increased by 60.0% to ₱ 293.9 billion in the nine months ended September 30, 2012 from ₱ 183.6 billion in the nine months ended September 30, 2011. This increase was primarily the result of the 55.1% growth in sales volumes and the 8% increase in the average cost per barrel of crude oil. The Company's Malaysian operations accounted for less than one-third of the cost of goods sold in the nine months ended September 30, 2012.

Refinery operating expenses, which formed part of costs of goods sold, increased by 36.6% from ₱ 4.1 billion in the nine months ended September 30, 2011 to ₱ 5.6 billion in the nine months ended September 30, 2012. This increase was attributed primarily to the consolidation of the operating expenses of the Port Dickson Refinery, as well as higher maintenance and repair works related to the shutdown of various process units and the turnaround of various storage tanks at the Limay Refinery.

Gross Profit

As a result of the foregoing, gross profit decreased by 26.8% to ₱ 13.4 billion in the nine months ended September 30, 2012 from ₱ 18.3 billion in the nine months ended September 30, 2011. Gross profit margin also decreased from 9.1% in the nine months ended September 30, 2011 to 4.4% in the nine months ended September 30, 2012, mainly due to the decline in crude oil prices during the second quarter of 2012. For example, Dubai crude oil prices declined from approximately US$124/bbl on March 14, 2012 to approximately US$89/bbl on June 22, 2012. These trends for crude oil prices required the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices since it holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively, and accounts for its inventory using the first-in-first out method. Crude oil prices have subsequently recovered and stabilized at above US$100/bbl, which resulted in the Company recording a net profit in the third quarter of 2012.

Selling and Administrative Expenses

Selling and administrative expenses increased by 40.8% to ₱ 6.9 billion in the nine months ended September 30, 2012 from ₱ 4.9 billion in the nine months ended September 30, 2011. The operating expenses of the Company's Philippine operations increased by 9% due to increased spending on the Company's advertising campaigns, higher levels of maintenance and repairs, the depreciation of newly built service stations and depots, expenses related to the acquisition of the Company's Malaysian operations and a donation that the Company made to the victims of typhoon "Sendong" in Cagayan de Oro. The Company's Malaysian operations accounted for less than one-quarter of total selling and administrative expenses in the nine months ended September 30, 2012.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 48.7% from ₱ 3.9 billion for the nine months ended September 30, 2011 to ₱ 5.8 billion for the nine months ended September 30, 2012, primarily as a result of the increase in the Company's indebtedness, which was partly offset by the repayment of a US$355 million five-year term banking facility in the second quarter of 2012 and a lower average borrowing rate. For more information regarding the Company's outstanding indebtedness, see "—Liquidity and Capital Resources."

Interest Income

Interest income decreased by 12.7% to ₱ 873 million in the nine months ended September 30, 2012 from ₱ 1.0 billion in the nine months ended September 30, 2011.

Share in Net Loss of Associates

Share in net loss of associates was ₱ 4 million in the nine months ended September 30, 2012 compared with ₱ 169 million in the nine months ended September 30, 2011. This reflected the Company's share in the net profit of MNHPI and its share in the net loss of PAHL, which had a significantly lower net loss in the nine months ended September 30, 2012 than in the nine months ended September 30, 2011.

Other Income (Charges)—Net

Other charges—net were ₱ 539 million in the nine months ended September 30, 2012 compared to other charges—net of ₱ 281 million in the nine months ended September 30, 2011, primarily due to the net cost of the Company's commodity hedging activities.

Tax Expense

Tax expense decreased by 92.9% to ₱ 178 million in the nine months ended September 30, 2012 from ₱ 2.5 billion in the nine months ended September 30, 2011 due primarily to the decrease in income before income tax.

Net Income

As a result of the foregoing, net income decreased by 88.2% to ₱ 0.9 billion in the nine months ended September 30, 2012 from ₱ 7.6 billion in the nine months ended September 30, 2011.

Year ended December 31, 2011 compared to year ended December 31, 2010

Sales

Sales increased by 19.6% from ₱ 229.1 billion in 2010 to ₱ 274.0 billion in 2011 as a result of higher fuel prices, although this was offset in part by lower sales volumes. Sales volume decreased from 48.29 million barrels in 2010 to 46.70 million barrels in 2011, primarily due to reduced industry demand as a result of higher fuel prices and reduced fuel consumption by power plants. However, these decreases in domestic sales were partially offset by increased export sales, which increased by 28.3%, from ₱ 21.9 billion in 2010 to ₱ 28.1 billion in 2011, primarily as a result of higher shipments of high-sulfur fuel oil and reformate, and a 34.5% increase in the average selling price per barrel in 2011 compared with 2010.

Cost of Goods Sold

Cost of goods sold increased by 19.8% from ₱ 209.3 billion in 2010 to ₱ 250.8 billion in 2011, primarily as a result of a 20.2% increase in inventories charged to cost of goods sold (including distribution or transshipment costs) from ₱ 203.8 billion in 2010 to ₱ 244.9 billion in 2011. This increase was primarily due to the higher average crude oil prices in 2011 compared with 2010.

Refinery operating expenses of the Limay Refinery, which formed part of costs of goods sold, increased by 12.0% from ₱ 5.0 billion in 2010 to ₱ 5.6 billion in 2011. This increase was primarily due to increases in employee costs due to additional employees at the Limay Refinery, rental expenses and expenses for scheduled maintenance and repairs.

Gross Profit

As a result of the foregoing, gross profit increased by 16.7% from ₱ 19.8 billion in 2010 to ₱ 23.1 billion in 2011. Gross profit margin increased to 8.4% in 2011 from 8.6% in 2010.

Selling and Administrative Expenses

Selling and administrative expenses increased by 13.7% from ₱ 7.3 billion in 2010 to ₱ 8.3 billion in 2011, as newly-built service stations resulted in increased expenses for rent and depreciation. The increase was also partly due to higher levels of spending on promotional activities and higher purchases of LPG cylinders.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 18.6% from ₱ 4.3 billion in 2010 to ₱ 5.1 billion in 2011. The increase was primarily due to interest payments on the ₱ 20 billion 7.0% notes due 2017 that were issued by the Company in November 2010 and the drawdowns under the ₱ 1.8 billion three-year term facility the Company entered into with the Development Bank of the Philippines in December 2010. The proceeds of the notes were used to repay the Company's then-existing indebtedness and for general corporate purposes, including capital expenditures, and the proceeds of the drawdowns under the term facility were used to finance the Company's general corporate requirements. For more information regarding the Company's outstanding indebtedness, see "—Liquidity and Capital Resources."

Interest Income

Interest income increased by 69.3% from ₱ 827 million in 2010 to ₱ 1.4 billion in 2011 as a result of interest earned from advances made to Petron Corporation Employees' Retirement Plan ("PCERP").

Share in Net Loss of Associates

Share in net loss of associates was ₱ 137 million in 2011 compared with ₱ 151 million in 2010. This reflected the Company's share in the net loss of PAHL, which was partly offset by the Company's share in the net profit of MNHPI.

Other Income—Net

Other income—net was ₱ 168 million in 2011, compared with other income—net of ₱ 1.4 billion in 2010, mainly as a result of the Company not benefiting from the same translation gains from its foreign currency-denominated transactions and net earnings from commodity hedging activities that it benefited from in 2010.

Tax Expense

Tax expense increased by 8.3% to ₱ 2.6 billion in 2011 compared with ₱ 2.4 billion in 2010 due to the higher income before tax in 2011.

Net Income

As a result of the foregoing, net income was ₱ 8.5 billion in 2011, 7.6% higher that the ₱ 7.9 billion recorded in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Sales

Sales increased by 29.8% from ₱ 176.5 billion in 2009 to ₱ 229.1 billion in 2010. This increase was primarily due to higher fuel prices in 2010. The Company's average selling prices in 2010 were 19% higher than in 2009, while the volume of products sold in the Philippines increased by 9.2%, from 44.22 million barrels in 2009 to 48.29 million barrels in 2010, as a result of increased economic activity, aggressive solicitation of new accounts and the expansion of the Company's Philippine retail service station network. The volume of the Company's sales of petrochemicals increased by 73% to 3.27 million barrels in 2010 from 1.89 million barrels in 2009 as 2010 marked the first full year of operations of the Company's benzene-toluene extraction unit, which was commissioned in April 2009.

Cost of Goods Sold

Cost of goods sold increased by 29.5% from ₱ 161.6 billion in 2009 to ₱ 209.3 billion in 2010. This increase was primarily the result of more expensive crude oil purchases due to an increase in crude oil prices of approximately 24.4% from US$62.34 per barrel in 2009 to US$77.58 per barrel in 2010 and an increase in the amount of crude oil used by 35.2% from 91 MBCD in 2009 to 123 MBCD in 2010 in line with the 9.2% increase in sales volumes.

Refinery operating expenses of the Limay Refinery, which formed part of costs of goods sold, decreased by 4.0% from ₱ 5.2 billion in 2009 to ₱ 5.0 billion in 2010, primarily due to lower maintenance and repairs and depreciation, which was partially offset by an increase in purchased utilities.

Gross Profit

As a result of the foregoing, gross profit increased by 32.9% from ₱ 14.9 billion in 2009 to ₱ 19.8 billion in 2010. Gross profit margin increased slightly from 8.5% in 2009 to 8.6% in 2010.

Selling and Administrative Expenses

Selling and administrative expenses increased by 28.1% from ₱ 5.7 billion in 2009 to ₱ 7.3 billion in 2010, primarily as a result of an increase in expenses related to the Philippine retail service station network expansion project. The Company incurred impairment loss on trade and other receivables of ₱ 75 million in 2011, compared with ₱ 481 million in 2010, due to the provision of allowances for (i) customer accounts that were more than 60 days overdue and (ii) receivables from the Philippine government, primarily relating to unpaid claims from VAT and excise tax refunds.

Interest Expense and Other Financing Charges

Interest expense and other financing charges remained essentially unchanged at ₱ 4.3 billion in 2010.

Interest Income

Interest income increased from ₱ 205 million in 2009 to ₱ 827 million in 2010 as a result of interest earned from advances made to PCERP.

Share in Net Loss of Associates

Share in net loss of associates was ₱ 151 million in 2010, primarily reflecting the Company's share in the net loss of PAHL, following the Company's acquisition of its 40% equity interest in PAHL in March 2010.

Other Income—Net

Other income—net increased by 134.5% from ₱ 597 million in 2009 to ₱ 1.4 billion in 2010. This was primarily due to translation gains from the Company's foreign currency-denominated transactions and net earnings from commodity hedging activities.

Tax Expense

Tax expense increased to ₱ 2.4 billion in 2010 from ₱ 1.5 billion in 2009 due to the higher income before tax in 2010.

Net Income

As a result of the foregoing, net income was ₱ 7.9 billion in 2010 compared with ₱ 4.3 billion in 2009.

Liquidity and Capital Resources

The Company's principal sources of funds have historically been net cash flows from operating activities and debt and equity financing. The Company's principal use of funds has historically been to fund its working capital and capital expenditure requirements. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the remainder of 2013 primarily from net cash flows from operating activities, the net proceeds of a US$485 million five-year term banking facility the Company entered into in October 2012, the net proceeds of the Original Securities and the net proceeds of this offering. The Company may also from time to time seek other sources of funding, which may include debt or equity financings, depending on its financing needs and market conditions. The incurrence of additional debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict the Company's operations. If the Company is unable to obtain additional financing as required, its business, results of operations, financial condition and prospects may be adversely affected.

The following table sets forth the Company's cash flows for the periods indicated:

	For the years ended December 31, (Audited)			For the nine months ended September 30, (Unaudited)	
	2009	2010	2011	2011	2012(1)
	(in millions of ₱)				
Net cash flows provided by (used in) operating activities	4,652	17,453	790	(641)	3,415
Net cash flows used in investing activities	(1,693)	(21,241)	(22,637)	(13,057)	(32,974)
Net cash flows provided by (used in) financing activities	(2,736)	34,598	1,658	(9,947)	27,451
Effect of exchange rate changes on cash and cash equivalents	(65)	189	28	60	(88)
Net increase (decrease) in cash and cash equivalents	158	30,999	(20,161)	(23,585)	(2,196)
Cash and cash equivalents at beginning of period	12,827	12,985	43,984	43,984	23,823
Cash and cash equivalents at end of period	12,985	43,984	23,823	20,399	21,627

(1) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

Net Cash Flows Provided by (Used in) Operating Activities

For the nine months ended September 30, 2012, net cash flows provided by operating activities was ₱ 3.4 billion, which was primarily the result of the Company's income before tax of ₱ 1.1 billion, as adjusted for non-cash items and changes in working capital, including non-cash depreciation and amortization expenses of ₱ 3.6 billion and a net increase in working capital of ₱ 409 million. The increase in working capital was primarily due to an increase in inventories of ₱ 10.1 billion, which was primarily a result of an increase in the volume and average price of crude oil and refined petroleum products and the consolidation of the Company's Malaysian operations, an increase in trade receivables of ₱ 1.0 billion and an increase in other current assets of ₱ 3.6 billion, which was partially offset by an increase in liabilities for crude oil and petroleum product importation of ₱ 14.1 billion, which was also due to the higher volume and price of crude oil and refined petroleum products and the consolidation of the Company's Malaysian operations.

Net cash flows provided by operating activities for the year ended December 31, 2011 was ₱ 790 million. This primarily resulted from the Company's income before tax of ₱ 11.1 billion, as adjusted for non-cash items and changes in working capital, including non-cash depreciation and amortization expenses of ₱ 3.7 billion and a net increase in working capital of ₱ 13.6 billion. The increase in working capital was primarily due to an increase in inventories of ₱ 9.6 billion, primarily as a result of the higher average crude oil and refined petroleum products prices, an increase in trade receivables of ₱ 3.7 billion and an increase in other current assets of ₱ 3.9 billion, which was partially offset by an increase in liabilities for crude oil and petroleum product importation of ₱ 2.6 billion.

Net cash flows provided by operating activities for the year ended December 31, 2010 was ₱ 17.5 billion. This primarily resulted from the Company's income before tax of ₱ 10.3 billion, as adjusted for non-cash items and changes in working capital, including non-cash depreciation and amortization expenses of ₱ 3.5 billion and a net decrease in working capital of ₱ 4.1 billion. The decrease in working capital was primarily due to an increase in liabilities for crude oil and petroleum product importation of ₱ 3.7 billion and an increase in trade and other payables of ₱ 1.6 billion, which was partially offset by an increase in trade receivables of ₱ 1.8 billion.

Net cash flows provided by operating activities for the year ended December 31, 2009 was ₱ 4.7 billion. This primarily resulted from the Company's income before tax of ₱ 5.8 billion, as adjusted for non-cash items and changes in working capital, including non-cash depreciation and amortization expenses of ₱ 3.6 billion and a net increase in working capital of ₱ 4.9 billion. The increase in working capital was primarily due to an increase in trade receivables of ₱ 5.7 billion, primarily as a result of the higher average selling prices of refined petroleum products prices towards the end of the year, and a decrease in liabilities for crude oil and petroleum product importation of ₱ 1.4 billion, which was partially offset by a decrease in inventories of ₱ 5.0 billion, as a result of a substantial reduction in volumes, which more than offset the higher average selling prices. There was also a reversal of allowance for inventory decline and others of ₱ 2.2 billion.

Net Cash Flows Used in Investing Activities

For the nine months ended September 30, 2012, net cash flows used in investing activities was ₱ 33.0 billion. This primarily reflects purchases of property, plant and equipment of ₱ 22.4 billion and the acquisition of the Company's Malaysian operations, net of cash and cash equivalents acquired, amounting to ₱ 19.1 billion, which were partly offset by the partial collection of advances to PCERP of ₱ 12.2 billion.

Net cash flows used in investing activities was ₱ 22.6 billion in 2011. This primarily reflects purchases of property, plant and equipment of ₱ 19.1 billion and investments in Limay Energen and MNHPI of ₱ 1.8 billion and additional advances to PCERP of ₱ 1.2 billion.

Net cash flows used in investing activities was ₱ 21.2 billion in 2010. This primarily reflects additions to long-term investments and advances to PCERP of ₱ 24.1 billion and purchases of property, plant and equipment of ₱ 4.4 billion, which were partially offset by a decrease in receivables from the Philippine government of ₱ 6.1 billion.

Net cash flows used in investing activities was ₱ 1.7 billion in 2009. This primarily reflects purchases of property, plant and equipment of ₱ 1.9 billion, which were partially offset by collection of government receivables of ₱ 1.1 billion, generally including taxes and duty refund.

Net Cash Flows Provided by (Used in) Financing Activities

For the nine months ended September 30, 2012, net cash flows provided by financing activities was ₱ 27.5 billion. The main component of this was proceeds received from loans of ₱ 233.8 billion and the proceeds of the issuance by Petron Global Limited of 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 US$1.00 per share, amounting to ₱ 14.2 billion on March 7, 2012, which was offset by the repayment of loans of ₱ 218.2 billion during the period and the Company's payment of cash dividends of ₱ 2.382 per share, or a total of ₱ 238.2 million, to its preferred stockholders in each of March, June and September 2012 and ₱ 0.10 per share, or a total of ₱ 938 million, to its common stockholders in April 2012, as well as Petron Global Limited's payment of cash dividends of ₱ 463 million to its preferred shareholders.

Net cash flows provided by financing activities were ₱ 1.7 billion in 2011. This reflects proceeds received from loans of ₱ 134.4 billion, net of the repayment of loans and the payment of cash dividends of ₱ 133.0 billion. The Company paid cash dividends of ₱ 2.382 per share, or a total of ₱ 238.2 million, to its preferred stockholders in each of March, June, September and December 2011. The Company also paid cash dividends of ₱ 0.10 per share, or a total of ₱ 938 million, to its common stockholders in 2011.

Net cash flows provided by financing activities were ₱ 34.6 billion in 2010. This reflects proceeds received from loans of ₱ 204.9 billion, net of the repayment of loans and the payment of cash dividends of ₱ 180.5 billion. The Company paid cash dividends of ₱ 2.382 per share, or a total of ₱ 238.2 million, to its preferred stockholders in each of June, September and December 2010. The Company also paid cash dividends of ₱ 0.10 per share, or a total of ₱ 938 million, to its common stockholders in 2010.

Net cash flows used in financing activities was ₱ 2.7 billion in 2009. This reflects proceeds received from loans of ₱ 166.2 billion and the repayment of loans of ₱ 168.8 billion during the period.

On December 5, 2012, the Company paid a ₱ 2.382 per share dividend, or a total of ₱ 238.2 million, to its preferred stockholders. In addition, on August 9, 2012, the Company's Board of Directors approved a ₱ 2.382 per share dividend, or a total of ₱ 238.2 million, to its preferred stockholders for the first quarter of 2013, payable on March 5, 2013.

Capital Resources

As of September 30, 2012, the Company had cash and cash equivalents of ₱ 21.6 billion. As of the same date, the Company had total outstanding short-term debt of ₱ 74.3 billion in the form of unsecured Peso-and Ringgit-denominated loans. All of the Company's short-term borrowings are unsecured.

As of September 30, 2012, the Company had total outstanding long-term debt (excluding current portion of long-term debt) of ₱ 45.3 billion. The Company obtained these loans from various financial institutions under several credit facilities. All of the Company's long-term borrowings are unsecured. As of the date of this offering circular, the Company's long-term debt agreements include requirements to maintain certain specified financial ratios, including a ratio of consolidated net adjusted debt to consolidated EBITDA, a ratio of total liabilities to consolidated tangible net worth and a ratio of consolidated gross debt to consolidated net worth.

As of the date of this offering circular, the Company is in compliance with the covenants in its long-term debt agreements.

The following table sets forth a summary of the maturity profile of the outstanding long-term borrowings of the Company for the years 2012 to 2017 and beyond as of September 30, 2012:

Payments Due by Period	Amount
	(in millions of ₱)
Repayment within the fourth quarter of 2012	35
2013	72
2014	6,045
2015	5,721
2016	10,231
2017 and beyond	23,224
Total	45,328

As of September 30, 2012, the Company had current assets of ₱ 138.5 billion and current liabilities of ₱ 129.1 billion. As of the same date, the Company's working capital (current assets minus current liabilities) was ₱ 9.4 billion.

In October 2012, the Company entered into a US$485 million five-year floating rate term banking facility. The Company made its first draw down under this facility of US$100 million in November 2012. The Company subsequently drew down an additional US$175 million in December 2012. In January 2013, the Company drew down an additional US$50 million and the balance of US$160 million.

On February 6, 2013, the Company issued the Original Securities.

Capital Expenditures

The Company has made significant capital expenditures to maintain and upgrade the Limay Refinery and to expand its retail service station network in the Philippines over the past several years. In 2009, 2010 and 2011, the Company's capital expenditures net of disposals were ₱ 1.9 billion, ₱ 4.4 billion and ₱ 19.1 billion, respectively. The Company's capital expenditures for the nine months ended September 30, 2012 were ₱ 22.4 billion. The Company has historically funded its capital expenditures with net cash flows provided by operating activities and debt or equity financing.

The Company's estimated consolidated capital expenditures for 2013 are approximately ₱ 51.9 billion. The Company expects to continue to make substantial capital expenditures after 2013. See "Business—Capital Expenditures Plan" for more information about the Company's capital expenditure projects. These capital expenditures are expected to be funded by a combination of net cash flows provided by operating activities and external financing sources, which include a portion of the proceeds of this offering. Since the net proceeds of the Original Securities, the New Securities and the Company's other cash resources will be insufficient to fully finance its planned capital expenditures, the Company will need to obtain additional financing. The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements. The Company has, however, entered into derivative transactions to manage its exposures to currency exchange rates and fluctuating commodity prices. See "—Derivative Financial Instruments."

Derivative Financial Instruments

The Company has entered into derivative financial instrument transactions, including swaps, options and forwards, to manage its exposures to exchange rates and fluctuating commodity prices. A more detailed description of the Company's derivative financial instruments is set forth in note 10 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to various types of market risks in the ordinary course of business, including interest rate risk, foreign currency exchange rate risk, credit risk, liquidity risk, commodity price risk and market price risk.

Interest Rate Risk

The Company's exposure to interest rate risk relates mainly to long-term borrowings and investment securities. Increases in interest rates will increase the Company's expenses on outstanding variable rate borrowings and the cost of new borrowings, and therefore could have a material adverse effect on the Company's financial results. The Company manages its interest rate risk exposure by using a combination of fixed and variable rate debt instruments. For more information regarding the Company's interest rate risk exposure, see note 9 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Foreign Currency Exchange Rate Risk

A substantial portion of the Company's revenues is denominated in Philippine Pesos and Ringgit Malaysia, while a substantial portion of its expenses, including crude oil purchases and foreign currency denominated debt service costs, is denominated in U.S. dollars. In 2011 and the nine month period ended September 30, 2012, 87% and 62%, respectively, of the Company's revenues were denominated in Philippine Pesos, and, in the nine months ended September 30, 2012, 31% of its revenues were denominated in Ringgit Malaysia, while 90% and 61% of its cost of goods sold were denominated in U.S. dollars in 2011 and the nine months ended September 30, 2012, respectively. In addition, as of September 30, 2012, 17% of the Company's outstanding debt was denominated in U.S. dollars. The Company's financial reporting currency is the Peso, and therefore depreciation of the Peso would result in increases in the Company's foreign currency denominated expenses as reflected in its Peso financial statements, and could also result in foreign exchange losses resulting from the revaluation of foreign currency denominated assets and liabilities, including increases in the Peso amounts of the Company's U.S. dollar denominated debt obligations, thereby adversely affecting the Company's results of operations and financial condition. In addition, there can be no assurance that the Company could increase its Peso- or Ringgit-denominated product prices to offset increases in its crude oil or other costs resulting from any depreciation of the Peso or the Ringgit, as applicable. Since January 1, 2009, the value of the Peso against the U.S. dollar has fluctuated from a low of ₱ 49.056 per U.S. dollar on March 2, 2009 to a high of ₱ 40.550 per U.S. dollar on January 15, 2013. In the same period, the value of the Ringgit Malaysia against the U.S. dollar has fluctuated from a low of RM3.728 per U.S. dollar on March 2, 2009 to a high of RM 2.939 per U.S. dollar on August 1, 2011. While the Company uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure, its exchange rate exposures are not fully protected. There can be no assurance that the value of the Peso or the Ringgit Malaysia will not decline or continue to fluctuate significantly against the U.S. dollar, and any significant future depreciation of the Peso or the Ringgit Malaysia could have a material adverse effect on the Company's margins, results of operations and financial condition. For a discussion regarding the Company's sensitivity to exchange rate fluctuations and related derivative instruments, see notes 9 and 10 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

The following table sets forth the Company's foreign currency-denominated financial assets and liabilities as of December 31, 2011, September 30, 2011 and September 30, 2012:

	As of		
	December 31, 2011	September 30, 2011	September 30, 2012[(1)]
	(Audited)	(Unaudited)	
		(in millions of US$)	
Financial assets	710	927	1,368
Financial liabilities	(872)	(1,373)	(2,235)
Net foreign exposure	(162)	(446)	(867)

(1) The Company's Malaysian operations have been consolidated into the Company's consolidated financial statements since the second quarter of 2012.

The exchange rates used to restate the dollar-denominated financial assets and liabilities stated above are ₱ 43.84 per U.S. dollar for December 31, 2011, ₱ 43.72 per U.S. dollar for September 30, 2011 and ₱ 41.70 per U.S. dollar for September 30, 2012.

Credit Risk

The Company's exposure to credit risk primarily relates to its trade and other receivables. Generally, the Company's maximum credit risk exposure in the event of customers' and counterparties' failure to perform their obligations is the total carrying amount of the financial assets as shown on the statement of financial position. The Company has no significant concentration of credit risk since it deals with a large number of homogenous trade customers. In order to minimize the credit risk, the Company measures, monitors and manages the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures. For more information regarding the Company's credit risk exposure, see note 9 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Liquidity Risk

The Company is exposed to the possibility that adverse changes in the business environment or its operations could result in substantially higher working capital requirements and, consequently, a difficulty in financing additional working capital. The Company manages its liquidity risk by monitoring its cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital. In addition, the Company regularly evaluates other financing instruments and arrangements to broaden its sources of financing. For more information regarding the maturity of the Company's financial liabilities, see note 9 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Commodity Price Risk

Imported crude oil generally accounts for approximately 78% of the Company's total cost of goods sold. Because of the commodity nature of oil products, competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Therefore, the prices of the Company's principal products are highly dependent on international crude oil prices. However, the Company's Malaysian operations are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is based primarily on the allocation of the applicable quotas by the Malaysian government. See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011."

The Company is exposed to fluctuations in the price of crude oil, which is subject to volatile price movement caused by a number of factors beyond the Company's control, including changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions and domestic and foreign governmental regulation. The Company holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since the Company accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect the Company as it may require the Company to sell its refined petroleum products produced with higher-priced crude oil at lower prices, as was the case in the second quarter of 2012. Furthermore, a sharp rise in oil prices would increase the Company's requirements for short-term financing for working capital and may result in higher financing costs for the Company. The Company enters into commodity swaps and options to manage the price risks of crude oil and products. However, volatile crude oil prices could still adversely affect the Company, as the Company may not be able to pass on the effects of crude oil price changes to consumers in a timely manner. For a discussion regarding the Company's commodity price risk exposure and related derivative instruments, see notes 9 and 10 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Market Price Risk

The Company's market price risk arises from its investments carried at fair value. The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The information and data contained in this section has been taken from sources in the public domain, including the Economist Intelligence Unit, International Energy Agency, International Monetary Fund, Malaysia Energy Information Hub, Philippine Department of Energy and U.S. Energy Information Administration. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company, the Joint Lead Managers nor any of their respective affiliates or advisors has independently verified the information included in this section.

Global and Regional Oil Market

Global oil demand is forecast to grow by 975 barrels per day ("kbd") in 2012 to reach 89.8 million barrels per day ("mbd") and by 930 kbd in 2013 to reach 90.8 mbd, according to the International Energy Agency ("IEA"). This represents annual changes of 1.1% and 1.0% for 2011/2012 and 2012/2013, respectively. The modest growth forecast for 2012 reflects weaker overall macroeconomic conditions, supply disruptions during the year in key oil producing countries and the impact of specific events such as Hurricane Sandy, which decreased U.S. demand in the fourth quarter of 2012.

Growth projections are primarily driven by emerging market and developing economies, including non-Organization for Economic Co-operation and Development ("OECD") countries such as China and India. Having risen by around 3.2% in the third quarter of 2012 to 43.9 mbd, non-OECD demand is forecast to continue driving oil demand growth globally, according to the IEA. This compares with an expected decline of 1.6% for OECD oil demand for the same period. The deteriorating outlook for OECD demand is driven by a range of factors, including slowing economic outlook, weaker domestic demand and rising cost pressures.

The divide in growth outlook between emerging market and developing economies, compared with advanced economies, is also reflected more broadly in economic forecasts. For 2012, the International Monetary Fund projects real global gross domestic product ("GDP") growth of 2.2% for the United States and a real reduction in GDP of 0.4% for the Eurozone, compared with real GDP growth of 7.8% and 4.9% for China and India, respectively.

Global Oil Demand (2011 – 2013E)

Million barrels per day (mbd, except percentages)

	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
Americas	30.3	30.1	30.7	30.4	**30.4**	29.7	30.3	30.5	30.7	**30.3**	30.0	30.2	30.8	30.9	30.5
Asia / Pacific	29.0	27.7	27.8	29.2	**28.4**	30.0	28.6	28.8	30.3	**29.4**	30.6	29.4	29.3	30.5	29.9
Europe	15.0	14.9	15.5	14.9	**15.1**	14.5	14.6	14.5	14.6	**14.5**	14.0	14.0	14.5	14.5	14.3
Middle East	6.9	7.4	7.8	7.3	**7.4**	7.1	7.7	8.0	7.5	**7.6**	7.3	7.8	8.3	7.7	7.8
FSU	4.2	4.4	4.6	4.6	**4.4**	4.4	4.5	4.7	4.7	**4.6**	4.6	4.6	4.8	4.9	4.7
Africa	3.3	3.3	3.2	3.3	**3.3**	3.4	3.4	3.4	3.5	**3.4**	3.5	3.5	3.5	3.6	3.5
Global—Total	**88.7**	**87.7**	**89.5**	**89.7**	**88.9**	**89.2**	**89.0**	**90.0**	**91.2**	**89.8**	**90.1**	**89.6**	**91.3**	**92.0**	**90.8**
Annual Chg (%)	*2.5*	*0.4*	*0.8*	*0.2*	***1.0***	*0.5*	*1.5*	*0.6*	*1.7*	***1.1***	*1.1*	*0.8*	*1.4*	*0.9*	*1.0*
Annual Chg	*2.1*	*0.4*	*0.7*	*0.2*	***0.8***	*0.5*	*1.3*	*0.5*	*1.6*	***1.0***	*1.0*	*0.7*	*1.3*	*0.8*	*0.9*

Note: Figures from 3Q12 onwards are estimates.

Source: Oil Market Report, International Energy Agency (January 2013).

Asian oil demand has continued to drive growth during 2012. Despite signs of its economy slowing down, China has been a key driver, although other Asian countries have also contributed to growth. Asia-Pacific accounts for approximately 33% of expected global oil demand for 2012, with the United States expected to remain the world's largest consumer of oil products, accounting for 18.7 mbd, or approximately 21% of expected global oil demand.

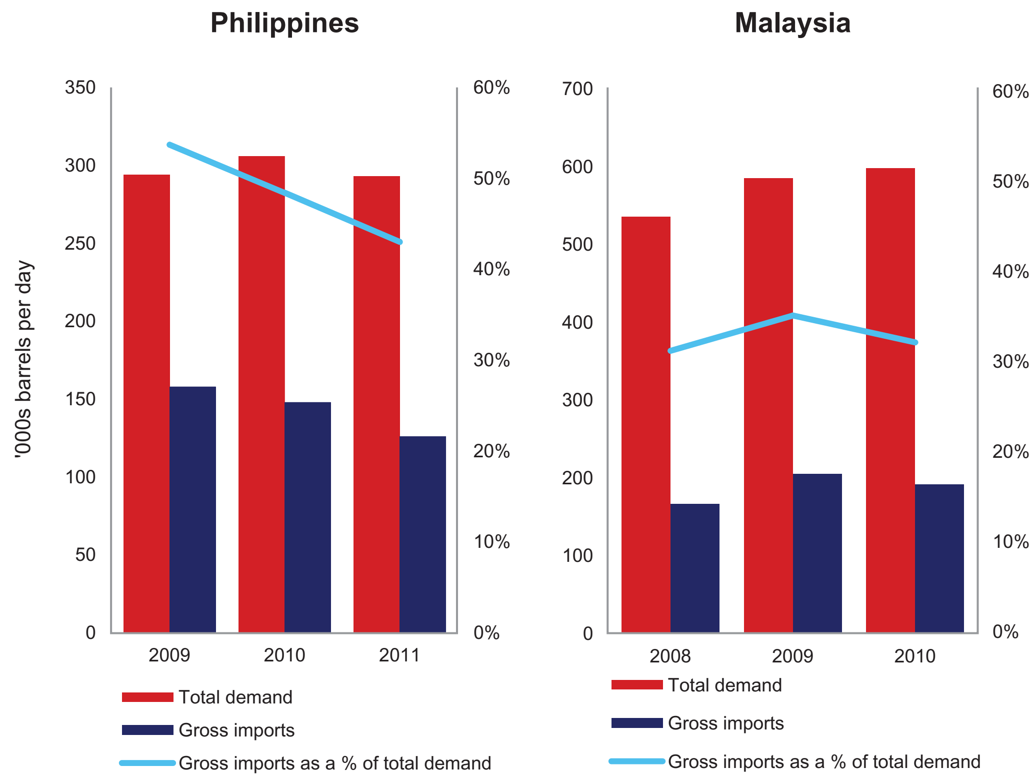
The Asia-Pacific market faces an overall supply deficit for refined products. Despite meaningful expected capacity additions in the medium term, industry commentators expect the deficit to remain. For refined products, Asian demand growth has been largely driven by light and middle distillates, such as gasoil, gasoline and naphtha. Naphtha is still a key petrochemical feedstock in Asia, and the rapid growth in new capacity has firmly supported naphtha demand in the region. LPG and kerosene/jet fuel have also posted healthy demand, while fuel oil demand has declined, largely due to substitution with coal and natural gas in the power sector. With continuing support for the use of cleaner-burning fuels, demand for these products is expected to weaken in the medium term.

The IEA estimates that during November 2012, Chinese refineries ran at record-high throughputs, reaching a new high of 10.2 mbd as refineries returned from maintenance and new capacity came online. Other factors expected to have impacted throughputs in the second half of 2012 include stronger margins in the OECD (especially Europe), offset by curtailed operations in the United States following Hurricane Sandy and downtime due to maintenance or disruptions in other regions, including Latin America and Africa. Global refinery throughputs are expected to increase in the first quarter of 2013 to 75.9 mbd, though an increase is typical at the beginning of the year.

The Philippine and Malaysian Oil Markets

The Philippines and Malaysia are importers of finished petroleum products. The tables below show demand, imports, and imports as a percentage of demand, for the periods indicated.

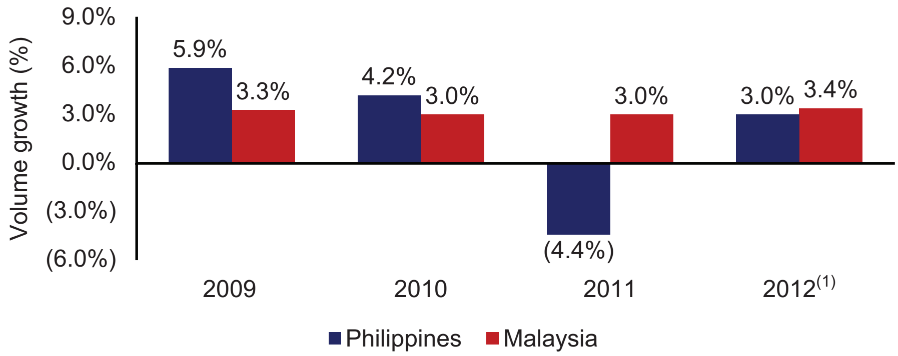
Demand and imports for finished petroleum products



Source: Philippine Department of Energy, U.S. Energy Information Administration.

The petroleum products industries in the Philippines and Malaysia have generally experienced growth since 2009, as shown in the table below.

Petroleum products demand growth



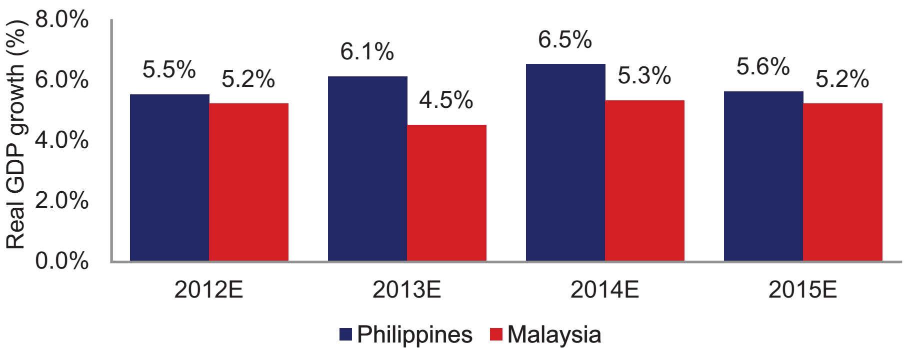
Note:

(1) Philippine growth shows industry growth for the nine months ended September 30, 2012. Malaysian growth shows industry growth for 2012.

Source: Philippine Department of Energy, JBC Energy.

Real GDP growth

According to the Economist Intelligence Unit, the Philippine and Malaysian economies are expected to exhibit stable real GDP growth at annual rates between 4.5% and 6.5%, as indicated in the table below. This favorable economic backdrop is expected to contribute to energy and refined products demand growth in these countries.



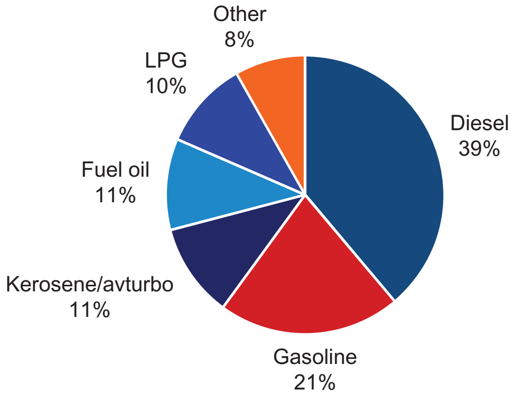
Source: Economist Intelligence Unit.

Philippine Oil Market

Based on data from the DOE, crude oil imports in the Philippine oil market for the first half of 2012 totaled 32.5 million barrels ("mbl"), down 10.8% from the first half of 2011. Crude oil imports in 2011 were 69.6 mbl. Historically, the majority of crude oil imports to the Philippines have been from the Middle East. In the first half of 2012, 81.6% of crude oil imports were sourced from the Middle East, of which Saudi Arabia accounted for 50.4% and the United Arab Emirates for 20.1%. After the Middle East, Russia was the next largest source of crude oil for the Philippines, accounting for 14.4% of imports in the first half of 2012.

Petroleum products demand grew by 3.0% to 82.5 mbl (an average daily requirement of 301 kbd) for the first nine months of 2012. The chart below shows demand by product for the first half of 2012.

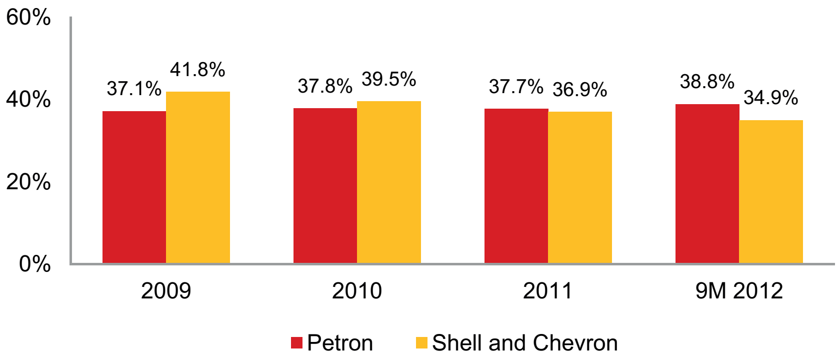
Philippine demand breakdown by product
Six months ended June 30, 2012; As % of total demand



Source: Philippine Department of Energy

Oil refining and petrochemical production is limited in the Philippines. Domestic oil refining capacity is approximately 290,000 bpd, of which the Company provides 180,000 bpd and Pilipinas Shell Petroleum Corporation ("Shell") provides 110,000 bpd, or 62% and 38% of total capacity, respectively, based on data from the DOE. The Company has historically maintained a leading market share in the Philippine oil industry, with an overall market share of 38.8% of the Philippine oil market in terms of sales volume based on industry data from the DOE for the nine months ended September 30, 2012. The table below provides market share data for the Philippine oil industry for the periods indicated.

Philippine petroleum product sales market share



Source: Philippine Department of Energy.

Due to a shortage of domestic production, the Philippines has continued to rely on imports for a substantial amount of refined products, such as gasoline and diesel. Imports during 2011 were at 46.1 mbl, a decrease of 15.6% from 2010. Diesel oil imports had the largest increase, at 48.3%, followed by kerosene/avturbo, at 21.1%. The largest decrease in imports was for fuel oil, down 54.8% compared to the first half of 2011.

Petroleum product exports from the Philippines have not been significant. During the first half of 2012 exports fell by 41.5% to 4.5 mbl, primarily due to maintenance shutdowns at the two refineries during the second quarter of 2012. The largest components of the export mix for the first half of 2012 were condensate (48.1%), naphtha

(19.5%), fuel oil (17.9%) and mixed xylene (8.5%). Oil refiners accounted for 51.9% of the export mix and condensate exports by Shell Philippines Exploration B.V. and LPG exports by Liquigaz accounted for the remainder, all according to the DOE.

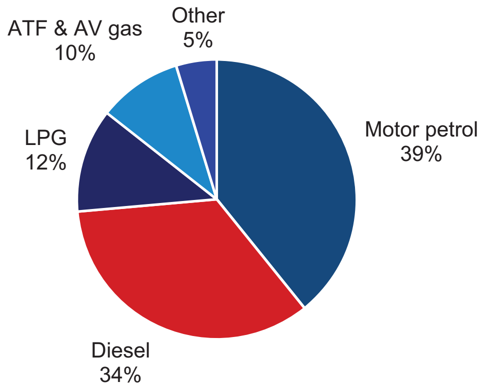
Malaysia Oil Market

Malaysia is among the largest producers of oil and gas in Southeast Asia. According the BP Statistical Review of World Energy, at the end of 2011 Malaysia had proven oil reserves of 5.9 bnbbl and proven gas reserves of 86.0 trillion cubic feet. In 2011, Malaysia's production of oil was 573 kbd (or 26.6 million tonnes), while natural gas production was 55.6 million tonnes of oil equivalent. The majority of Malaysia's crude oil comes from offshore fields, predominantly in the Malaya basin. Malaysia's benchmark crude oil is the Tapis Blend, which is categorized as light and sweet.

The oil and gas and energy sectors are the largest contributors to Malaysia's national GDP. Petroliam Nasional Berhad ("Petronas") is Malaysia's integrated national oil and gas company and is the exclusive holder of ownership rights to all oil and gas exploration and production projects and is responsible for all licensing procedures in Malaysia.

According to the National Energy Balance, the final consumption of petroleum products in Malaysia in 2010 totaled 24,403 thousand tons of oil equivalent ("ktoe"). Out of the final consumption in 2010, the largest components were motor petrol (39.2%), diesel (34.4%) and LPG (12.0%). In terms of regional breakdown, nearly 85% of petroleum product sales were in Peninsular Malaysia, with Sabah and Sarawak accounting for the remainder.

Final consumption of petroleum products (2010)

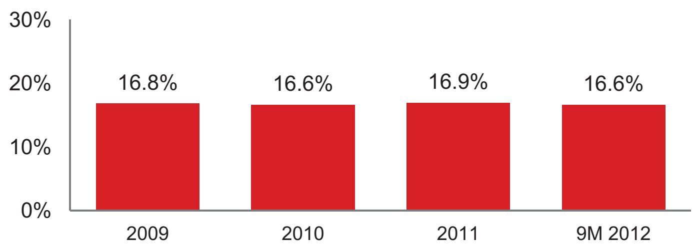


Source: National Energy Balance 2010.

Consumption of finished petroleum products in the Malaysian market has grown in recent years, with total sales volumes increasing year-on-year by 3.3% in 2009, 3.0% in 2010, 3.0% in 2011 and 3.4% in 2012, according to JBC Energy.

In Malaysia, the oil industry is dominated by Shell and Petronas, followed by the Company. In the Malaysian retail segment, the Company has a market share of 16.6%, according to Metrix Research estimates. The following table shows the historical retail market share for the Company's Malaysian operations, which the Company acquired in March 2012.

Petron Malaysia/ExxonMobil Malaysia historical retail market share



Source: Metrix Research.

Over the last decade, Malaysia has been a net importer of gasoline, predominantly from Singapore. It has also been a net importer of diesel and fuel oil. Conversely, Malaysia has been a net exporter of certain products, including LPG, naphtha and jet fuel/kerosene. Exports have predominantly been to countries in Asia, including India, Japan, Singapore, South Korea and Thailand.

Global Petrochemical Market

Petrochemical Products

Petrochemicals are chemical products derived from petroleum or other hydrocarbons. Primary petrochemicals include olefins and aromatics. Olefins are unsaturated molecules of carbon and hydrogen that appear as short chains of between two and four carbons in length, while aromatics contain a six carbon ring structure. Olefins and aromatics form the basis of a range of materials, including adhesives and solvents, and olefins form the basis for polymers, which are used, among other things, in plastics, fibers, resins and lubricants. Descriptions of certain petrochemicals are set forth below, of which propylene is an olefin and benzene, toluene and xylene are aromatics.

(1) Propylene is the feedstock for the production of polypropylene, which is used to manufacture items such as food packaging plastics, car bumpers, computer housings, appliance parts and fibers.

(2) Benzene is used to produce numerous compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.

(3) Toluene is used as a solvent in paints, inks, adhesives and cleaning agents, and in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals and in the production of pharmaceuticals, dyes, and cosmetic nail products.

(4) Xylene is used to make polyester fibers, packaging materials, bottles and films.

Refining—Petrochemical Integration

Key factors affecting petrochemical companies include access to feedstock, the cost of feedstock, proximity to demand centers, technological advances and access to talent. In particular, the integration of petrochemical operations with refineries has been a way for companies to secure access to feedstock and also to capture more value from a refinery's product streams. This gives some flexibility in whether to maximize production of petroleum products or petrochemicals, depending on market requirements and the refinery's configuration. In addition, the integration of petrochemical facilities with refineries can provide economies of scale from the use of shared facilities and infrastructure, other overhead costs, as well as a sales channel for the products, which are used as feedstocks for petrochemical processes.

Petrochemical Outlook

The petrochemicals industry has historically been cyclical and has usually coincided with the business cycles of global and regional economies. Changes in supply and demand and resulting utilization levels are key factors that affect profitability. Periods of low industry profitability typically alternate with high profitability and result in periods of over- and under-investment. The long lead times for the construction of new facilities can result in capacity additions coinciding with, and subsequently exacerbating, weakening market conditions.

Petrochemicals demand from Asian countries is expected to be a significant contributor to overall global growth going forward. China and India are expected to be among the key countries contributing to this growth, driven by the manufacturing sector and the economy more broadly. In particular, the per capita consumption of products such as polyethylene and polypropylene in these countries is considerably lower than for instance in Europe. At the same time, there have been new capacity additions in Asia-Pacific, with further facilities being built and planned. Nevertheless, in the medium term, countries in the region are generally expected to remain net importers of feedstock and petrochemical products.

BUSINESS

OVERVIEW

The Company was incorporated under the Philippine Corporation Law and registered with the Philippine Securities and Exchange Commission ("SEC") on December 22, 1966.

The Company refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, the Company is the largest integrated oil refining and marketing company, with an overall market share of 38.8% of the Philippine oil market in terms of sales volume based on industry data from the DOE for the nine months ended September 30, 2012. The Company entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream business in that country. The Company had a 16.6% share of the Malaysian retail market for the nine months ended September 30, 2012, according to Metrix Research estimates, the market research consultant appointed by Malaysian retail market participants to compile industry data.

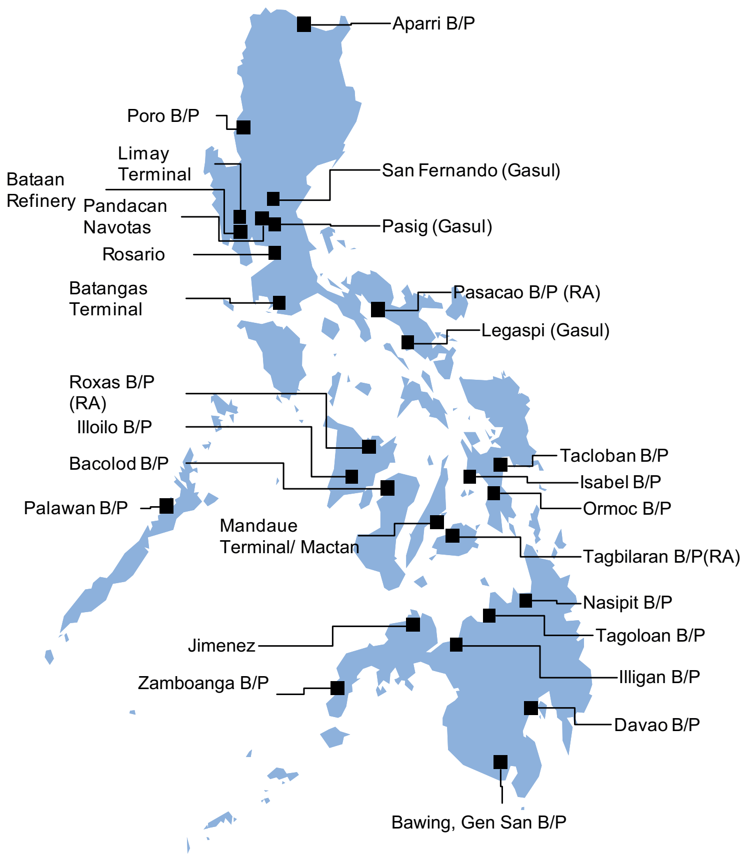
The Company's ISO 14001-certified Limay Refinery in Limay, Bataan in the Philippines, which has a crude oil distillation capacity of 180,000 barrels per day ("bpd"), processes crude oil into a full range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, fuel oil and petrochemical feedstocks such as benzene, toluene, mixed xylene and propylene. In the fourth quarter of 2010, the Company launched Phase 2 of the Refinery Master Plan ("RMP-2") for the Limay Refinery, a US$2 billion investment project that will enable the Limay Refinery to further enhance its operational efficiencies and convert its current fuel oil production into White Products production, significantly increase the Company's production of petrochemicals and make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard. RMP-2 is expected to be completed in 2014.

The Company is also building a new cogeneration power plant in Limay, Bataan, at an estimated total project cost of approximately US$500 million, to replace some of the Limay Refinery's existing turbo and steam generators. The cogeneration power plant will completely fulfill the Limay Refinery's current and expected future electricity and steam requirements and is expected to reduce the Company's refining costs. The cogeneration power plant is being constructed in two phases. The first phase, which consists of two boilers and two circulating fluidized boilers ("CFBs"), is expected to be commissioned in the first half of 2013, and the second phase is expected to be completed in 2014.

From the Limay Refinery, the Company moves its products, mainly by sea, to more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. Through this nationwide network, the Company supplies fuel oil, diesel, LPG and gasoline, as well as imported asphalt and gasoline formulated for use in piston-driven aircraft, to various industrial customers. The Company also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The map below shows the geographic coverage of the Company's depots and terminals in the Philippines as of December 31, 2012.

Geographic coverage of the Company's depots and terminals in the Philippines



Note:

(1) Map indicates depots and terminals .

(2) B/P refers to bulk plants (depots).

(3) RA indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

Through its network of 2,015 retail service stations in the Philippines as of December 31, 2012, the Company sells gasoline, diesel and kerosene to motorists and to the public transport sector. The Company also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

The Company also manufactures lubricants and greases, which are sold through the Company's service stations and sales centers. The Company owns and operates a fuels additive blending plant in the Subic Bay Freeport Zone in the Philippines, which has a tolling agreement with Innospec, Limited ("Innospec"), a global fuel additives supplier. Regional customers of Innospec and the Company's own requirements are served from the output of the Subic additive blending plant.

In recent years, the Company has diversified into petrochemicals, adding a mixed xylene recovery unit to the Limay Refinery complex in 2000 and a propylene recovery unit in 2008. Its benzene-toluene extraction unit became operational in May 2009. In March 2010, the Company acquired a 40% stake in PAHL, owner of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. In December 2012, the Company converted certain loans it had made to PAHL to additional equity, which increased its stake in PAHL to 45.9%. The Company has an option to increase its stake in PAHL up to 51%. PPI owns a polypropylene plant located in Mariveles, Bataan in the Philippines.

On March 30, 2012, the Company completed its acquisition of ExxonMobil's integrated downstream business in Malaysia for an aggregate purchase price of US$577.3 million. The acquired assets and operations form an integrated downstream business. With this acquisition, the Company has extended its portfolio of oil refining and marketing businesses outside the Philippines. The Company now owns and operates the 88,000 bpd Port Dickson Refinery, eight product terminals and a network of approximately 555 retail service stations in Malaysia, which are being rebranded under the *Petron* brand, a process that is expected to be completed in 2014. The acquisition is providing the Company with potential synergies in terms of manpower skills and technical knowledge, as well as potential product swap arrangements with suppliers who operate in both the Philippine and Malaysian markets. As of September 30, 2012 the acquired entities had a combined total asset value of ₱ 60.6 billion (based on an exchange rate of RM 1.00 = PHP 13.6).

The Company's products are primarily sold to customers in the Philippines and Malaysia, but, in line with its efforts to increase its presence in the regional market, the Company also exports various petroleum products and petrochemical feedstocks, including low-sulfur waxy residue ("LSWR"), high-sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

The Company also engages in the businesses of insurance, marketing and leasing, and intends to support its core business through further investments, such as the upgrading and enhancement of its refineries, primarily the Limay Refinery pursuant to the RMP-2, the construction of a new cogeneration power plant for the Limay Refinery and continued retail network expansion.

In the first nine months of 2012, the Company's sales were ₱ 307.3 billion, compared with ₱ 201.9 billion in the first nine months of 2011. The Company's net income in the first nine months of 2012 was ₱ 0.9 billion, compared with ₱ 7.6 billion in the first nine months of 2011.

The Company's common shares and preferred shares are listed for trading on the PSE under the symbols "PCOR" and "PPREF," respectively.

STRENGTHS

The Company believes that its principal competitive strengths include the following:

Operations in the Philippine and Malaysian markets, which have favorable industry dynamics

The Company operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which the Company believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism that provides stable returns to fuel retailers. According to the Economist Intelligence Unit, both economies are projected to experience strong economic growth to 2015, which is expected to contribute to increased domestic demand for refined products and lead to a potential supply shortfall. As both the Philippines and Malaysia are importers of finished petroleum products, the Company believes it is well-positioned to benefit from this supply shortfall with its production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, giving it a significant competitive advantage against other competitors.

Market leadership in the Philippine downstream sector

With an overall market share of approximately 38.8% of the domestic oil market based on industry data for the nine months ended September 30, 2012, the Company believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies operating in the country. The Company also believes it has the largest sales volumes in the retail, industrial and LPG market segments. Based on the DOE industry data for the nine months ended September 30, 2012, it has the following approximate market shares: 34.2% of the retail trade market; 42.9% of the industrial market; 41.5% of the LPG market; and 37.5% of the lubricants and greases market.

In the Philippines, the Company owns and operates the largest oil refinery complex. With 180,000 barrels per day capacity, the Company's refinery has a capacity that is 70,000 barrels per day higher compared to the only other operating refinery. In Malaysia, the Company's 88,000 barrels per day refinery represents 16.4% of Malaysia's total refining capacity.

The Company has the most extensive distribution system in the Philippines, which allows it to operate and serve its customers across the country. This distribution system covers a network of over 30 depots, terminals, and airport installations that reaches most key points of the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing the Company's leading position in the Philippines. Since 2011, the Company has focused on expanding its distribution network to accommodate increasing demand across the country, and will continue to invest to expand its network. The Company's multi-sector approach to marketing through retail, LPG and bulk industrial customer operations also plays a large role in its unmatched success in the Philippines downstream sector. As of December 31, 2012, the Company maintains 2,015 service stations nationwide, more than any other market participant, and intends to grow this number to serve the increased production from RMP-2. The Company believes it is the leader in the LPG segment with more than 800 branch stores. The Company's industrial sales covers more than 1,100 direct industrial accounts, including the National Power Corporation of the Philippines.

Established position in the regulated Malaysian market

The Company has recently acquired an established position in the Malaysian downstream sector through its acquisition of ExxonMobil's downstream business in Malaysia, which has a recognized health, safety and environmental track record. This provides both geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

JBC Energy estimates that the Malaysian market has achieved consistent annual petroleum products volume growth of approximately 3% over the last four years. At its current market size of approximately 600 thousand barrels per day, it is double the size of the Philippine market. According to Metrix Research estimates, for the nine months ended September 30, 2012, the Company has a 16.6% market share of the Malaysian retail segment. The Company's marketing and distribution infrastructure in Malaysia also puts it in a position to capture a growing share of the market. The Company's network in Malaysia includes 555 service stations, 262 convenience stores and eight product terminals in both Peninsular and East Malaysia. It also has presence in the aviation business, with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport, and has 11.3% market share in the LPG segment.

In addition, Malaysia is a regulated market with subsidies, quotas and the automatic pricing mechanism, which provides for a fixed oil company margin and a fixed operating cost recovery. See "Regulatory and Environmental matters—Malaysia—Sale and Pricing of Refined Petroleum Products." This regulated environment provides stability to the Company's Malaysian operations.

Strong principal shareholder in San Miguel Corporation

SMC, directly or indirectly, holds an effective 68.26% of the Company's outstanding common equity as of December 31, 2012. See "Principal Shareholders." Already Southeast Asia's largest publicly listed food, beverage and packaging company, SMC has been redefining its business portfolio in recent years. It has now secured key investments in the areas of power and energy, oil refining and marketing, infrastructure and telecommunications that it believes have significant growth and expansion potential.

The Company believes that it benefits from its relationship with SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. The Company also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

Experienced management team and employees

The Company has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. The Company's management team in the Philippines and Malaysia have more than 20 years of management experience while average tenure of employees in the Company is approximately 14 years for the Philippines and 12.5 years for Malaysia. The management team has extensive experience in the oil industry and has successfully managed the Company through periods of crisis and instability in the Philippines as well as through the various changes the Company has undergone, including changes in ownership, privatization and industry deregulation. In addition, the Company has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Limay Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. Petron is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees.

STRATEGIES

The Company's principal strategies are set out below.

Further increase its market share in the Philippines and in Malaysia

The Company is the largest integrated oil refining and marketing company in the Philippines, with an overall share of approximately 38.8% of the Philippine oil market in terms of sales volume based on industry data for the nine months ended September 30, 2012 from the DOE. The Company is also a strong market participant in Malaysia. According to Metrix Research estimates, for the nine months ended September 2012, the Company has a 16.6% market share of the Malaysian retail segment. The Company intends to utilize its leading market position and extensive distribution network as a platform for maximizing its revenue potential. It believes that such platform is an advantage of the Company over most of its competitors in the Philippines. The Company believes that both markets are still underserved and intends to grow its market position by: (i) increasing its retail outlets for fuels and LPG to capture industry growth and improve market penetration; (ii) introducing new products with differentiated and superior qualities; (iii) developing and expanding its logistical facilities, including the addition of new aviation facilities in tourist destinations; (iv) building more LPG re-filling and auto-LPG facilities; (v) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide "value conscious" customers with a one-stop full service experience; and (vi) intensifying its dealer and sales personnel training to support the Company's retail business and continuing service station network expansion. In line with these plans, the Company intends to continue its aggressive service station expansion program in the Philippines and rebranding and refurbishing its service stations in Malaysia. In addition, the Company seeks to maintain and further develop its significant position in both markets by reinforcing business relationships with existing customers such as through enhanced loyalty programs in the Philippines and Malaysia. These loyalty programs are aimed at maximizing patronage of the Company's service stations and allied businesses.

Focus on production of high margin refined products and petrochemicals

Over the years, the Company has made significant investments in conversion and petrochemical facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years it has focused increasingly on the production of new higher margin petrochemical feedstocks, such as propylene, mixed xylene, toluene and benzene, and shifted production from lower margin fuel oils to higher margin products. This is a core area of focus for the Company going forward and is a direct result of proactive investment in high margin products and petrochemicals.

At the Limay Refinery, in order to increase its ability to produce more high margin products the Company has invested in RMP-2, a USD2 billion turn-key project expected to be completed in 2014. The project involves upgrades to the Limay Refinery by adding new facilities to increase the Company's capability to convert low-margin fuel oil into a broader range of white products and petrochemical products and process heavier, more sour (and therefore lower cost) crudes. The Company expects that post completion of RMP-2, the Limay Refinery will run at close to full capacity, with production expected to increase from an average of 100 thousand barrels per day currently to 170-177 thousand barrels per day. The refinery will also be able to produce petcoke, which may be used as fuel for the power plant, lowering the Company's power generation costs. The upgrade is expected to increase revenues and reduce costs and place the Limay Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region and improve its competitiveness. Once fully implemented, RMP-2 will make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard. As of December 31, 2012, approximately half of the engineering design, procurement activities and construction had been completed.

The Company intends to continue to evaluate opportunities for increasing its production of downstream petrochemicals, such as the processing of propylene, ethylene, xylene, benzene or toluene into derivatives or finished products.

Continue investments to increase operational efficiencies and widen market reach

The Company has undertaken a number of strategic projects aimed at increasing operational efficiency and profitability. In addition to RMP-2 and the expansion of the Company's service station network, the Company is constructing a new cogeneration power plant for the Limay Refinery to replace some of the Limay Refinery's existing turbo and steam generators. The new cogeneration power plant will utilize more efficient technology and generate power at lower costs. The new cogeneration power plant will have a total of 140 MW power generation capacity and 800 metric tonnes per hour ("MTH") steam generation capacity, which will completely fulfill the Limay Refinery's current and expected future electricity and steam requirements. The first phase for the cogeneration power plant, which consists of two boilers and two CFBs, is expected to be commissioned in the first half of 2013. The second phase, which is expected to be completed in 2014 is expected to fulfill the Limay Refinery's entire electricity and steam requirements, including the increased demand arising from RMP-2. The power plant will initially utilize coal as fuel and will switch to petcoke once the Limay Refinery commences its planned petcoke production in 2014. The project cost is estimated at approximately US$500 million. These initiatives are intended to reduce costs and increase the reliability of power and steam supply, sourcing flexibility and cost efficiency of the Limay Refinery.

The Company also intends to pursue cost-efficient opportunities to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities. In particular, the Company expects to increase the efficiency of its existing supply chain through a range of initiatives, including: (i) optimizing its crude oil mix to produce more profitable products from the existing refining configuration and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Limay Refinery; (iii) enhancing receiving and storage facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (v) reducing distribution costs through rationalization of the depot network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. The Company also expects to continue utilizing operational synergies with SMC's network, products and services.

Selective synergistic acquisitions

In addition to organic growth, the Company will continue to consider selective opportunities to expand both within and outside the Philippines through strategic acquisitions consistent with its focuses on the Philippine market and creation of operational synergies. The Company will consider any acquisition opportunity carefully, and any potential acquisition would undergo extensive review and evaluation procedures to ensure that it would be beneficial to the Company's business as a whole. For example, in March 2010, the Company acquired a 40% stake in PAHL, which was subsequently diluted to 33% in June 2010 and increased to 45.9% in December 2012. PAHL owns PPI, which owns a polypropylene plant located approximately five kilometers from the Limay Refinery. The polypropylene plant's primary feedstock, propylene, is supplied by the Limay Refinery. Through its investment in PAHL, the Company shares in the incremental value derived from converting propylene into polypropylene resin. In addition, on March 30, 2012 the Company completed its acquisition of ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines. This acquisition is providing the Company with potential synergies in terms of manpower skills and technical knowledge, as well as potential product swap arrangements with suppliers who operate in both the Philippine and Malaysian markets.

RECENT DEVELOPMENTS

On February 14, 2013, PMRMB, a subsidiary of the Company listed on the Bursa Malaysia, released its unaudited condensed interim financial results for the quarter ended December 31, 2012 and for the year ending December 31, 2012. The Company indirectly holds a 73.4% equity interest in PMRMB. PMRMB's financial results will be consolidated into the Company's financial statements. During the quarter ended December 31, 2012 PMRMB recorded higher revenues as compared with the same period of the prior year, but it recorded lower gross profit as a result of factors including unfavorable trends in crude oil and refined product prices.

CORPORATE HISTORY AND MILESTONES

The Company was incorporated in 1966 under the name Esso Philippines Inc. and was later renamed Petrophil Corporation ("Petrophil"). Between 1987 and 1988, Petrophil, Bataan Refining Corporation and Petron TBA Corporation were merged into one entity, and the surviving corporation was renamed Petron Corporation. In 1994, the Philippine National Oil Company ("PNOC") sold 40% of its shares in the Company to Aramco Overseas Company B.V. ("AOC"), a wholly owned subsidiary of Saudi Aramco, and 20% to the public in an initial public offering. The Company's common shares were listed on the PSE in 1994. In 2008, AOC sold its shares in the Company to the Ashmore group, and, following a series of share transfers, at the end of 2008, the Company was majority-owned by the Ashmore group through its subsidiaries, specifically, 50.1% by SEA Refinery Corporation ("SRC") and 40.47% by SEA Refinery Holdings B.V. ("SEA BV").

In 2008, SMC and SEA BV entered into an option agreement granting SMC the option to buy 100% of SEA BV's ownership interest in SRC. In April 2010, SMC exercised its option to purchase a 40% equity interest in SRC. SMC subsequently acquired an additional 1.97% of the Company's common shares pursuant to a tender offer.

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company.

In August 2010, SMC purchased approximately 16% of the outstanding common shares in the Company from SEA BV, and in October 2010 SMC acquired from the public 0.006% of the Company's outstanding common shares. SMC subsequently exercised its option to purchase the remaining 60% of SRC from SEA BV in December 2010, increasing its effective ownership of the outstanding and issued common shares of the Company to 68.26%.

In January 2012, PCERP sold 7.4% of the Company's outstanding common shares to the public, and, in December 2012, PCERP sold an additional 2.08% of the Company's outstanding common shares to Credit Suisse (Singapore) Limited.

In March 2012, the Company acquired 100% of the voting shares in each of ExxonMobil Malaysia Sdn. Bhd. and ExxonMobil Borneo Sdn. Bhd. from Mobil International Petroleum Corporation and ExxonMobil International Holdings Inc., respectively. The acquired companies were subsequently renamed Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd., respectively.

Also in March 2012, the Company acquired 65% of the voting shares of Esso Malaysia Berhad ("Esso") from ExxonMobil International Holdings Inc. The Company subsequently acquired an additional 8.4% of the voting shares of Esso in May 2012 pursuant to a mandatory takeover offer. In July 2012, Esso was renamed Petron Malaysia Refining & Marketing Berhad.

Certain key dates and milestones for the Company's business are set forth below.

1957	Standard Vacuum Oil Company was granted a concession to build and operate the Limay Refinery in Limay, Bataan owned by Bataan Refining Corporation.
1961	The Limay Refinery commenced commercial operations with a capacity of 25,000 bpd.
1998	The lubricant oil blending plant in Pandacan, Manila was modernized, replacing facilities that were built in 1968.
2000	The mixed xylene plant in the Limay Refinery commenced operations, marking the Company's entry into the petrochemicals market.

2008	The petrofluidized catalytic cracking ("PetroFCC") unit in the Limay Refinery commenced operations enabling the Company to convert fuel oil into higher value products such as LPG, gasoline and diesel.
	The propylene recovery unit in the Limay Refinery commenced operations enabling the recovery of propylene from the LPG produced by the PetroFCC unit.
	The fuel additives blending plant in the Subic Freeport Zone commenced operations, making the Company the exclusive blender of Innospec's additives in the Asia Pacific region.
2009	Completion of the debottlenecking of the Company's continuous catalyst regeneration reformer unit and its mixed xylene plant, enabling the recovery of more mixed xylene.
	The benzene-toluene extraction unit in the Limay Refinery commenced operations, enabling the Company to produce benzene and toluene.
2010	The Company acquired a 40% stake in PAHL, owner of PPI, which was diluted to 33% when PAHL issued new shares to another investor in June 2010. The Company has an option to increase its stake in PAHL up to 51%. PPI owns a polypropylene plant located in Mariveles, Bataan in the Philippines.
	The Company acquired a 40% stake in Limay Energen, forming a joint venture between the Company and Two San Isidro SIAI Assets, Inc., for the purpose of undertaking a cogeneration power plant project in Limay, Bataan.
	The Company acquired a 35% stake in MNHPI, forming a joint venture between the Company and Harbour Centre Port Terminal, Inc., which is intended to serve as the vehicle for an alternative depot for Metro Manila and a venue to expand international sales of bunker fuel.
2011	PPI, in which the Company has a 45.9% indirect interest, commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, which is expected to enable the Company to capture the incremental margin from converting its propylene production into polypropylene.
2012	The Company acquired ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.
	The Company acquired the shares of Two San Isidro SIAI Assets, Inc. in Limay Energen, making Limay Energen a wholly-owned subsidiary of the Company.
	The Company converted certain loans it had made to PAHL to additional equity, which increased its stake in PAHL to 45.9%.

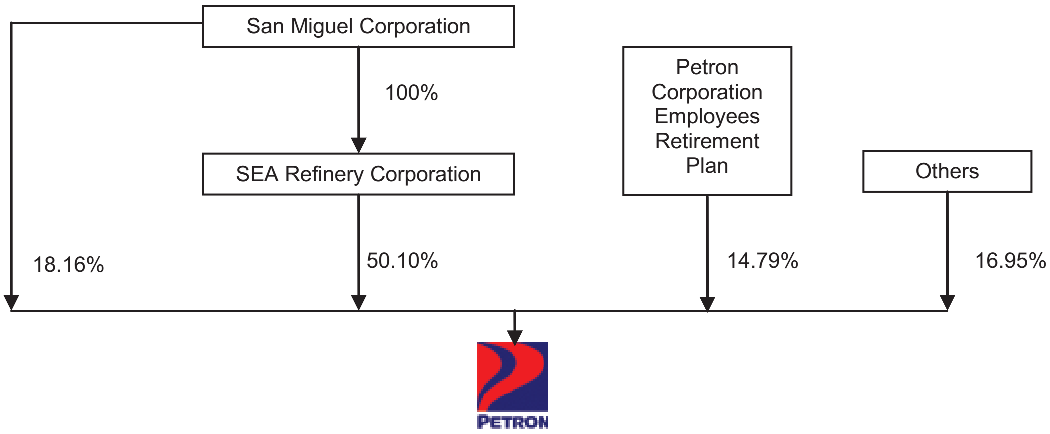
The table below sets forth the Limay Refinery's historical refining capacity as of the date of this offering circular.

Year	Capacity (bpd)
1961	25,000
1968	45,000
1971	117,000
1977	130,000
1978	155,000
1995	165,000
1998	180,000

As of the date of this offering circular, the Port Dickson Refinery has a refining capacity of 88,000 bpd.

OWNERSHIP AND CORPORATE STRUCTURE

The Company is a publicly listed company jointly owned by SRC, PCERP, SMC and the general public. The chart below sets forth the ownership structure of the common shares of the Company as of the date of this offering circular.



The table below sets forth the Company's equity interest in its primary operating subsidiaries, associates and holding companies as of the date of this offering circular, as well as their principal businesses and places of incorporation. The Company has two insurance subsidiaries, Petrogen and Ovincor, which were established to support the insurance requirements of the Company and its allied business partners, including contractors, suppliers, haulers and dealers. The Company also has marketing and trading subsidiaries and interests in realty companies, a polypropylene manufacturing company and a power generation company to support its core business.

Name of Company	Place of Incorporation	Company's Controlling Interest	Principal Business
Overseas Ventures Insurance Corporation Ltd. ("Ovincor")	Bermuda	100%	Reinsurance
Petrogen Insurance Corporation ("Petrogen")	Philippines	100%	Insurance
Petron Freeport Corporation ("PFC")	Philippines	100%	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores, and the manufacture of fuel additives
Petron Marketing Corporation ("PMC")	Philippines	100%	Wholesale or retail sale of fuels, operation of company-owned and company-operated service stations and restaurants
Petron Singapore Trading Pte. Ltd. ("PSTPL")	Singapore	100%	Procurement of crude oil, freight contracts and commodity hedges
Petron Oil & Gas International Sdn Bhd	Malaysia	100% indirect interest	Investment holding

Name of Company	Place of Incorporation	Company's Controlling Interest	Principal Business
Petron Malaysia Refining & Marketing Bhd ("PMRMB")	Malaysia	73.4% indirect interest (the other 26.6% is owned by the public)	Manufacturing and marketing of petroleum products in Peninsular Malaysia
Petron Fuel International Sdn. Bhd. ("PFI Malaysia")	Malaysia	100% indirect interest	Marketing of petroleum products in Malaysia
Petron Oil (M) Sdn. Bhd. ("POM")	Malaysia	100% indirect interest	Marketing of petroleum products in East Malaysia
Limay Energen Corporation ("Limay Energen")	Philippines	100%	Construction, operation and maintenance of a cogeneration power plant for the generation of power and steam, primarily to supply the steam and power requirements of the Limay Refinery
Petrochemical Asia (HK) Ltd. ("PAHL")	Hong Kong	45.9%	Ultimate holding company of PPI
Philippine Polypropylene Inc. ("PPI")	Philippines	45.9% indirect interest	Manufacture of polypropylene
New Ventures Realty Corporation ("NVRC")	Philippines	40% (the other 60% is owned by a trustee bank of PCERP)	Purchase and sale of properties suitable for use as service station sites, bulk plants or sales offices
Manila North Harbour Port Inc. ("MNHPI")	Philippines	35%	Operation and management of the Manila North Harbor passenger and cargo terminal

PRODUCTS

The Company's products are categorized into fuels, automotive oil and lubricant products, industrial oil and lubricant products, marine oil and lubricant products, greases, asphalts, special products and aftermarket specialties.

The table below sets forth each of the Company's fuels products, as well as a description of each product.

Brand/ Product	Description
PHILIPPINES	
PETRON GASUL	A premium clean-burning LPG consisting of a mixture of propane and butane gases. It is used as fuel for cooking, lighting and industrial applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders and in bulk.
FIESTA GAS	An economy LPG consisting of a mixture of propane and butane gas. It is used as fuel for industrial heating, as well as cooking and lighting applications and is sold in 2.7-kg, 11-kg, 22-kg and 50-kg cylinders.

Brand/ Product	Description
PETRON XTEND AUTO LPG	A clean burning automotive LPG used as fuel for LPG-fuelled gasoline engines.
PETRON GAAS	A refined water-white kerosene with clean burning qualities. It is used as fuel for stoves, lamps and other domestic uses.
PETRON BLAZE 100	An ultra-high-performance unleaded gasoline with an octane rating of 100. It contains a proprietary additive system that results in superior performance and protection.
PETRON XCS	A premium unleaded gasoline that contains a complete combustion additive system that delivers quick engine response, increased engine protection and optimal fuel efficiency.
PETRON XTRA	An environmentally friendly premium motor gasoline that contains a unique gas-saving additive that promotes more efficient combustion and lower fuel consumption.
PETRON PINOY GASOLINE	A motor fuel with an octane rating of 88. It is formulated with fuel additives for enhanced performance in low compression gasoline engines, such as motorcycles, pump boats, lawn mowers, grass cutters and other agricultural utility machinery.
PETRON REGULAR GASOLINE	A motor fuel with an octane rating of 81. It is used as fuel for low compression gasoline engines, such as motorcycles, scooters, pump boats, lawn mowers, grass cutters and other agricultural utility machinery.
PETRON TURBO DIESEL	An advanced diesel designed for high performance diesel engines. It has high ignition quality and contains powerful cleaning additives and combustion enhancer to provide maximum power and efficiency.
PETRON DIESEL MAX	A low-sulfur premium product formulated with a robust multifunctional additive system for improved fuel economy and reduced emissions.
PETRON AVIATION GASOLINE	A low-lead, high-octane aviation gasoline for aircraft with reciprocating engines.
PETRON JET A-1	A highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.
PETRON INDUSTRIAL DIESEL FUEL	A "dual-purpose" fuel that is recommended as a boiler fuel in domestic or light industrial installations with pressure jet burners and as a diesel fuel for off-road heavy equipment.
PETRON FUEL OIL	A low cost residual fuel, commonly referred to as "bunker fuel", used in industrial applications, such as power plant engines, boilers, furnaces and marine engines.
INTERMEDIATE FUELS	Fuels blended from diesel and bunker fuels, classified into different grades as specified by the universally-adopted System International metric system of measurement. They are intended for use in international marine vessels.
SPECIAL FUEL OILS	Fuels blended from diesel and bunker fuels, classified into special fuel oil grades based on viscosity ranges. They are intended for use in domestic marine vessels.
LSFO-1	A special type of bunker fuel with a 1% maximum sulfur content. It is suitable for industrial and marine applications where low-sulfur fuel is required to reduce emissions of sulfur dioxide.

Brand/ Product	Description
MALAYSIA	
PETRON BLAZE 97	A high-performance unleaded gasoline with an octane rating of 97+. It contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in superior combustion and performance.
PETRON BLAZE 95	A high-performance unleaded gasoline with an octane rating of 95+. It contains a special blend of multi-functional additive, combustion enhancer and friction modifier, resulting in superior combustion and performance.
PETRON DIESEL	A diesel fuel suitable for use in automotive diesel engines, as well as industrial applications. The fuel meets the Malaysian diesel standard, MS 123.
PETRON GASUL	A premium clean-burning LPG consisting of a mixture of propane and butane gases. It is used as fuel for cooking, lighting and industrial applications and is sold in 12-kg and 14-kg cylinders.
PETRON JET A-1	A highly-purified kerosene-type aviation fuel used by aircraft with turbo prop and turbojet engines. It has good combustion characteristics suitable for low-temperature operation at high altitude.
LOW SULFUR WAXY RESIDUE	A low-sulfur bottom/residue from refinery processing, which is used as a feedstock for chemical plants or low-sulfur fuel for power generation plants.

Automotive oil and lubricant products include the Company's extensive line of automotive oil and lubricants for different types of vehicle engines and road conditions.

Industrial oil and lubricant products include the Company's broad range of oils and lubricants designed for extreme temperatures and operating conditions for various industrial uses.

Marine oil and lubricant products include the Company's broad range of oils designed for lubrication of various types of diesel engines used in the maritime industry.

Greases include the Company's grease products used for the protection of equipment and the reduction of wear on gears and other components of vehicle and industrial engines.

Asphalts include the Company's asphalt products used for road paving, sealing applications, undercoating, waterproofing and rust proofing.

Special products include the Company's products designed for special applications, such as process oils, thermal oils, protective coatings, steel case molding, tire manufacturing, processing of natural fibers and other non-lubricating applications.

Aftermarket specialties include products such as brake fluid coolants, diesel additives, engine oil and gasoline additives, sprayable grease, car shampoos and multi-purpose sprays.

Diversifying into petrochemicals, the Company built a mixed xylene recovery unit in 2000, a propylene recovery unit in 2008 and a benzene-toluene extraction unit in 2009. The Company also rehabilitated a polypropylene plant, which became fully operational in 2011. The table below sets forth each of the Company's petrochemical products, as well as a description of each product.

Product	Description
Xylene	Used to make polyester fibers, packaging materials, bottles and films.
Propylene/Polypropylene	Propylene is the raw material used for the production of polypropylene. Polypropylene is used to manufacture food packaging plastics, car bumpers, computer housings, appliance parts and fibers.
Benzene	Aromatics hydrocarbon, used to produce numerous intermediate petrochemical compounds, such as styrene, phenol, cyclohexane, alkylbenzenes, and chlorobenzenes, which are used to produce plastics, pharmaceuticals, pesticides and other chemicals. It is also used as a solvent for paints and natural rubber.
Toluene	Used as a solvent in paints, inks, adhesives, and cleaning agents, as well as in chemical extractions. It is also used in the chemical synthesis of benzene, urethane foams and other organic chemicals, and in the production of pharmaceuticals, dyes and cosmetic nail products.

PRODUCTION

Production Facilities

The Philippines

In the Philippines, the Company owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 bpd. Its facilities include three crude oil distillation units, a vacuum pipestill unit, the PetroFCC unit, a propylene recovery unit, a continuous catalyst regeneration platformer unit, a powerformer unit, two naphtha hydrotreaters, two LPG treaters, an isomerization unit, a mixed xylene recovery unit, a benzene-toluene extraction unit, a kerosene merox treater, two gas oil hydrotreater units, a sulfur recovery unit, waste water treatment facilities, eight steam generators, five turbo generators, flare and safety relieving facilities, bulk asphalt receiving facilities, several crude oil storage tanks, as well as several refined petroleum products storage tanks. It has its own piers and two offshore berthing facilities, one of which is used for receiving crude oil that can accommodate very large crude oil carriers.

The Limay Refinery is capable of producing a broad range of petroleum products such as LPG, gasoline, jet fuel, diesel and fuel oil. In 2000, the Limay Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant. The Limay Refinery started producing propylene in 2008 with the commissioning of its propylene recovery unit, which has a demonstrated capacity of 130,000 tons per year of polymer-grade propylene. Also in 2008, the Limay Refinery started the construction of the benzene-toluene extraction unit to further expand its capability to produce petrochemical feedstock. The benzene-toluene extraction unit, which became operational in May 2009, is designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI, in which the Company has a 45.9% indirect interest, commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Limay Refinery's propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually, and the Company has entered into an offtake agreement with PPI pursuant to which PPI is entitled to purchase 100% of the Limay Refinery's propylene production.

The Company also completed a fuel additive blending plant in the Subic Freeport Zone in July 2008 with a capacity of 12,000 MT per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. The Company is Innospec's exclusive blender in the Asia-Pacific region.

Malaysia

In Malaysia, the Company owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 bpd. Its facilities include a crude oil distillation unit, a naphtha hydrotreating unit with a processing capacity of 26,000 bpd, two semi-regeneration reformer units with a combined processing capacity of 19,000 bpd and a kerosene hydrotreating unit with a processing capacity of 12,000 bpd. The Port Dickson Refinery also has waste water treatment facilities, a steam generator, a cooling water plant, flare and safety relieving facilities, five crude oil storage tanks with a total capacity of approximately one million barrels, 20 refined petroleum products storage tanks and five spheres for LPG storage with a total capacity of approximately 1.1 million barrels.

The Port Dickson Refinery produces a range of products, including LPG, gasoline, jet fuel, diesel and LSWR. With the exception of LSWR, these products are intended to meet domestic demand in Malaysia. The Company exports its LSWR under a term contract with Concord Energy.

Crude oil for the Port Dickson Refinery (predominantly light low-sulfur crude oil) is received at the Port Dickson Refinery by means of a single buoy mooring ("SBM") and crude pipeline facilities that are jointly owned with Shell through an unincorporated joint venture. The SBM is operated by Shell, and the Company shares the operating costs equally with Shell. The Company also pays a levy of one-third of the overhead and administrative charges incurred by Shell in connection with the operation of the SBM.

The Refining Process and Quality Improvement Initiatives

The Limay Refinery

The Limay Refinery has been implementing various programs and initiatives to achieve key performance indices on reliability, efficiency and safety. These programs include the Reliability Availability Maintenance ("RAM") program and the Profitability Improvement Program ("PIP"), which were developed and implemented in coordination with KBC, an international consultant. The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five years from the previous two years. The PIP likewise significantly improved White Products recovery, particularly diesel and LPG.

The Limay Refinery has also adopted a continuous improvement culture. The Limay Refinery's Continuous Improvement Program was one of the finalists for the 2008 Peoples' Program of the Year award sponsored by the People Management Association of the Philippines. As of November 2012, the program had produced 506 improvement projects since its inception in 2003.

The Limay Refinery achieved its Integrated Management System ("IMS") certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body, in 2009. The IMS is an integration of three management systems: (1) Quality ISO 9001:2008; (2) Environment ISO 14001:2004; and (3) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the Limay Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; hazard and injury free working environment; and environmentally friendly operations.

The Port Dickson Refinery

The Port Dickson Refinery utilizes various management systems in support of its operations. These systems include the safety management system ("SMS"), the loss prevention system ("LPS"), the reliability management system and additional plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted the LPS to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques. The Port Dickson Refinery's SMS provides a structured approach to the management of risks related to safety, security, health and the environment ("SSHE") and to compliance with local SSHE regulations and laws.

The Port Dickson Refinery has accumulated more than ten consecutive years without any lost-time injury for employees or contractors and has received an award from the Malaysian Society for Occupational Safety and Health ("MSOSH"), as well as the Prime Minister Hibiscus Award for good environmental performance.

To increase plant reliability, the Port Dickson Refinery adopted the reliability management system, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution.

The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, flaring, oil loss and energy conservation through the use of advanced process computer control and an integrated plant information system.

Raw Materials

Philippine Operations

The main raw material used in the Limay Refinery's production process is crude oil. The Company acquires crude oil for the Limay Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. In 2011 and the first nine months of 2012, the Company purchased approximately 74% and 81%, respectively, of its total crude oil supply requirements for the Limay Refinery from Saudi Aramco. Under the term contract the Company entered into with Saudi Aramco in 2008, the Company may purchase up to 140 MBCD of various Saudi Aramco crudes. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco's standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis and secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either the Company or Saudi Aramco elects to terminate the contract upon at least 60 days' written notice prior to its expiration date. The contract was most recently renewed on October 28, 2012.

In 2011 and the first nine months of 2012, the Company also purchased approximately 3% and 5%, respectively, of its total crude oil for the Limay Refinery from Petronas pursuant to a one-year contract for Malaysian crude oil. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. Several other crude oils are purchased on a spot basis from various suppliers.

Although the Limay Refinery is configured to process predominantly light and sweet crude oils, most of which are Middle East crude oils, it is capable of processing other crude oils. In line with its crude oil optimization strategy, the Company is exploring the utilization of various types of crude oil, other than those supplied by Saudi Aramco and Petronas, to provide additional value to the Company.

For its supply of low-sulfur fuel oil ("LSFO"), the Company imports the bulk of its requirements from Petrobras Singapore Pte Ltd. LSFO is used for blending regular fuel oil grade for the domestic market and for Limay Refinery fuel to meet emission control standards. The Company also markets LSFO to other industrial accounts in the Philippines.

The Company renewed its contract for the supply of group I base oils (SN500, SN150 and BS150) with Shell International Eastern Trading Co. in October 2012. This contract is renewable annually and pricing is calculated using a formula based on an international standard price benchmark for base oils. The group I base oils are the Company's main feedstock for the production of automotive, industrial and marine lubricants.

The Company is the sole buyer of all the ethanol produced by the Philippine-based San Carlos Bioenergy, Inc. pursuant to a 2008 ten-year supply contract based on a formula price. The balance of the Company's ethanol requirements is sourced from imports. Ethanol is blended with gasoline to comply with the current requirement under the Philippine Biofuels Act of 2006 that all premium gasoline fuel sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011.

The Company also imports LPG, aviation gas, asphalt and some gasoline blending components. These imports are necessary as the Company does not produce asphalt and aviation gas, while its production of LPG is insufficient to meet domestic demand in the Philippines. Occasional imports of diesel, finished gasoline and jet fuel are also necessary during maintenance of the Limay Refinery. Pricing is usually based on Mean of Platts Singapore.

Malaysian Operations

The main raw material used in the Port Dickson Refinery's production process is crude oil. The Company acquires crude oil for the Port Dickson Refinery from local sources, through a combination of term purchase contracts and spot purchases. The Company has entered into a term contract with Concord Energy, a crude oil and refined products trading company headquartered in Singapore. Pursuant to this contract, the Company may purchase up to 70 MBCD during the first five years and 65 MBCD during the next five years of Tapis crude oil and Terengganu Condensate. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is for ten years, effective from April 1, 2012.

The Company purchases all of the crude oil supply requirements for the Port Dickson Refinery, including purchases under term contracts and spot market purchases, from Concord Energy. Although the Port Dickson Refinery is configured to process predominantly Tapis crude oil, which is a light and sweet crude oil, it is capable of processing other crude oils. In line with its crude oil optimization strategy, the Company is exploring the utilization of other crude oils for use in the Port Dickson Refinery's production.

The Company buys palm oil methyl ester ("POME") from Malaysian government-approved local suppliers for its biodiesel mix. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. The Company produces a biodiesel mix comprising 5% POME and 95% diesel to comply with the current requirement under the Malaysian Biofuel Industry Act of 2007. The biodiesel program under the Malaysian Biofuel Industry Act of 2007 is being implemented in stages throughout Malaysia, and at present it covers only the central region, although it will be extended to other parts of the country by 2014.

The Company also imports LPG, diesel, gasoline and some gasoline blending components. These imports, which the Company purchases through term purchase contracts and in the spot market from Concord Energy, are necessary as the Company does not produce enough refined products to meet domestic demand in Malaysia. Pricing is usually based on Mean of Platts Singapore.

Utilities

The principal utilities required for the Company's production process are water, electricity and steam.

Water

Deep wells provide the Limay Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal cooling water source. Water for firefighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

Electricity and Steam

In 2011, the Company purchased approximately 40% of the Limay Refinery's electricity requirements from the national grid. The balance was generated within the Limay Refinery from its existing turbo generators. The Limay Refinery's eight existing steam generators supply steam for the turbo generators and other process units.

The Company is also building a new cogeneration power plant for the Limay Refinery. Upon completion of the first phase, expected in the first half of 2013, the cogeneration power plant is expected to have two trains, each with two 35 MW turbo generators and two 200 MTH CFBs. This capacity will be sufficient to serve the Limay Refinery's current electricity and steam requirements. The second phase of the project, which is expected to be completed in 2014, involves the construction of two additional 35 MW turbo generators and two additional 200 MTH CFBs. The additional capacity provided by these additional generators is expected to completely fulfill the Limay Refinery's electricity and steam requirements, including the increased demand arising from the full implementation of the RMP-2. The new cogeneration power plant will be connected to the national grid, and the Company expects that the excess capacity generated by the new power plant upon completion of each phase will be sold to the grid. See "—Capital Expenditures Plan—Capital Expenditures Projects—Cogeneration Power Plant."

The Port Dickson Refinery's electricity requirements are purchased from the Malaysian national electricity provider, while the Port Dickson Refinery's fire and waste heat boilers supply steam for the steam generators and other process units.

SALES AND MARKETING

The Philippines

In the Philippines, the Company is the market leader in the oil industry, with an overall market share of 38.8% of the Philippine oil market in terms of sales volume based on industry data from the DOE for the nine months ended September 30, 2012.

In the retail market, the Company had 2,015 retail service stations throughout the Philippines as of December 31, 2012, representing approximately 35% of the country's total gasoline station count of approximately 5,760. Most of these stations are located in Luzon, where demand is heaviest.

The Company can employ any of three types of service station operating structures in the Philippines, namely: company-owned-company-operated service stations ("COCO"), company-owned-dealer-operated service stations ("CODO") and dealer-owned-dealer-operated service stations ("DODO"). For COCOs, the Company buys or leases the land and also owns the service station structures and equipment. COCOs are operated by the Company's subsidiary, PMC. Similarly, for CODOs, the Company buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers operate the service station, buy or lease the land, build service station structures according to Company specifications, and lease the service station equipment from the Company. As of December 31, 2012, of the Company's 2,015 retail service stations in the Philippines, approximately 28% were CODOs, and approximately 72% were DODOs. The Company had only one COCO in the Philippines as of September 30, 2012.

The Company actively pursues initiatives to improve customer service, promote customer loyalty and support its retail business. For example, the *Petron e-Fuel Card* was launched in July 2008, initially as a promotional item. In 2004, the Company launched the *Petron Fleet Card*, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services. It also provides 24-hour free towing and roadside assistance to cardholders. The *Petron Fleet Card* continued to grow in 2011, as the Company expanded its retail network and service offerings. The total number of *Petron Fleet Card* users grew by 11% in 2011, and, as of September 30, 2012, more than 100,000 cards had been issued. The Company continued to install the point of sale ("POS") system across its retail network throughout the Philippines in 2011 and the first nine months of 2012. As of September 30, 2012, a total of 489 of the Company's retail service stations in the Philippines had POS terminals installed. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. To maximize patronage of its service stations and related businesses, the Company launched a loyalty program in October 2011 through its *Petron Value Card*. As of September 30, 2012, a total of 341,542 *Petron Value Cards* had been issued.

To improve traffic in the Company's service stations and increase potential revenues of the Company's non-fuel business, the Company established *Treats* convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations in Luzon. In 2011, the *Treats* convenience stores were acquired by San Miguel Pure Foods Company, Inc., an affiliate of the Company, and rebranded under the brand name *San Mig Food Avenue*.

The Company also services approximately 40% of the Philippine industrial sector, which includes major manufacturing, aviation, and marine accounts. Sales to PAL, PSALM, NAPOCOR and PANASIA accounted for approximately 3%, 2%, 1% and 1%, respectively, of the Company's total sales volume for the nine months ended September 30, 2012, and the Company supplied approximately 62% and 16% of the fuel requirements of NAPOCOR and PSALM, respectively, for the same period, as stipulated in the relevant supply contracts. The contracts for supplying NAPOCOR's and PSALM's fuel requirements are allocated through an annual bidding process among industry market participants. Overall, the Company has more than 1,100 direct industrial account customers.

The Company is the biggest market participant in the Philippine LPG market. The Company had set up more than 800 branch stores through its *Gasul* and *Fiesta Gas* LPG dealers as of September 30, 2012. It has also gained headway in the field of alternative fuels through its auto-LPG program, *Petron Xtend*, and auto-LPG facilities are already installed in 21 service stations throughout the Philippines. In 2011, the Company started supplying the LPG requirements of all SMC plants such as San Miguel Yamamura and Rightpak. The Company also commissioned seven mini-refilling plants in the Philippines in 2012 to broaden the reach of the Company's LPG products and make them accessible to more Filipinos.

To augment lubricants and greases sales, Petron Lubes had a network of 16 *Car Care Centers*, 25 *Petron Sales Centers* and 16 *Lubes & Specialties Centers* throughout the Philippines as of September 30, 2012. The Company also leverages its expanded LPG outlet network, utilizing its branch stores as outlets for the Company's lubricants and specialty products. The Company is also expanding into blending and export of fuel additives, leveraging its technology partnership with Innospec, a global fuel additives supplier. The Company also provides technical services to Innospec's customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

In line with its efforts to increase its presence in the regional market, the Company also exports various petroleum products and petrochemical feedstocks, including LSWR, high-sulfur fuel oil, naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Malaysia

The Company's fuels marketing business in Malaysia is divided into retail business and commercial sales.

The retail business markets fuel and other retail products through a dealer network comprising 555 retail service stations located throughout Peninsular and East Malaysia, which are being rebranded under the *Petron* brand, a process that is expected to be completed in 2014. In Malaysia, the Company uses the CODO and DODO operating structures for its retail service stations. As of December 31, 2012, of the Company's 555 retail service stations in Malaysia, approximately 75% were CODOs, and approximately 25% were DODOs. Approximately 260 of the service station sites have convenience stores, which generate non-fuel revenues and improve traffic in the service stations. Approximately 60% of CODOs in Malaysia have convenience stores in respect of which the Company owns the equipment and runs national promotions, but the dealer owns the inventory and manages the operations. Approximately 50% of DODOs in Malaysia have convenience stores that are fully owned and managed by the dealers.

Since acquiring its Malaysian operations in March 2012, the Company has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. The Company has continued to operate the existing loyalty card programs at its Malaysian retail service stations, and these programs will be rebranded as part of the general rebranding of the Company's Malaysian retail service station network. As of December 31, 2012, the Company's loyalty card program in Malaysia comprised approximately 1.4 million cardholders.

The Company's commercial sales are divided into four segments: industrial and aviation fuels, wholesale fuels, LPG and lubricants and specialties.

The industrial and aviation segment sells diesel, gasoline and jet fuel to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. The Company's sales to unbranded mini-stations represented approximately 76% of such sales in Malaysia by volume in 2011, according to Metrix Research. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. The Company sells diesel to such power plants on an ad-hoc basis at spot prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Sales of diesel to the manufacturing, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are subject to a quota system in Malaysia, the Company's sales to these transportation sectors are subject to volume limits. The Company has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas. See "Risk Factors—Risks Relating to the Company's Business and Operations—The fuel business in Malaysia is regulated by the Malaysian government, and the Company is affected by Malaysian government policies and regulations relating to the marketing of fuel products, including price controls, subsidies and quotas." The Company is also one of the three major jet fuel suppliers in Malaysia and sells jet fuel at Kuala Lumpur International Airport ("KLIA") pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the KLIA's storage and hydrant facility.

The Malaysian wholesale segment consists of sales, primarily of diesel, gasoline and kerosene, to Company-appointed resellers, which sell the Company's products to industrial customers. As at September 30, 2012, the Company had 133 active resellers.

The Company markets LPG in 12-kg and 14-kg cylinders for domestic use through two company-owned-dealer-operated redistribution centers, 17 dealer-owned-dealer-operated stockists and 160 dealers. LPG redistribution centers are owned by the Company and distribute bottled LPG to dealers. Stockists are dealer-owned and are smaller in size than redistribution centers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Sales of LPG in 14-kg cylinders or less are subsidized under the APM.

See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011" for a more detailed discussion of the APM and the Malaysian quota system.

The Company established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. A wide range of automotive lubricants is sold through the Company's extensive network of service stations in Malaysia. The Company also participates in sales to car and motorcycle workshops, as well as to the industrial market through its appointed distributors.

The Company also exports LSWR and naphtha from the Port Dickson Refinery. LSWR is exported under a term contract with Concord Energy, and naphtha is sold through accredited traders under spot contracts. The Company awards these contracts based on a tender process.

DISTRIBUTION

The Philippines

The Company's main storage facility in the Philippines is located in Pandacan, Manila. Pandacan is also the site of the main terminals of Shell and Chevron. In 2004, the Pandacan operations of the Company, Shell and Chevron were integrated to address the safety and environmental concerns of the surrounding community. The integrated facility is now operated by the Pandacan Depot Services Inc., a joint venture company equally owned by the Company, Shell and Chevron. The Pandacan terminal distributes products to a large tributary area that extends south, north and east of Manila. Approximately 50% of the Company's total sales volume is moved through Pandacan.

To serve its domestic markets, the Company maintains more than 30 depots, terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network in the Philippines. The network comprises 12 depots and terminals in Luzon, eight in Visayas and seven in Mindanao, as well as two airport installations in Luzon, one in Visayas and two in Mindanao. Depots and terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Limay Refinery, refined products are distributed to the various depots and terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts throughout the Philippines through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third party ship owners. From the storage depots, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third party owners of the contracted barges and tankers and tank trucks that are used to haul the Company's products are liable for losses and environmental issues that arise while the products are being transported.

In its Philippine LPG business, the Company has a nationwide network of retail dealerships and outlets. Some service stations also carry the Company's LPG products and accessories. The Company also has stand-alone LPG operations in its depots in Pasig, Metro Manila, Legaspi City, and San Fernando, Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are also appointed to sell these products.

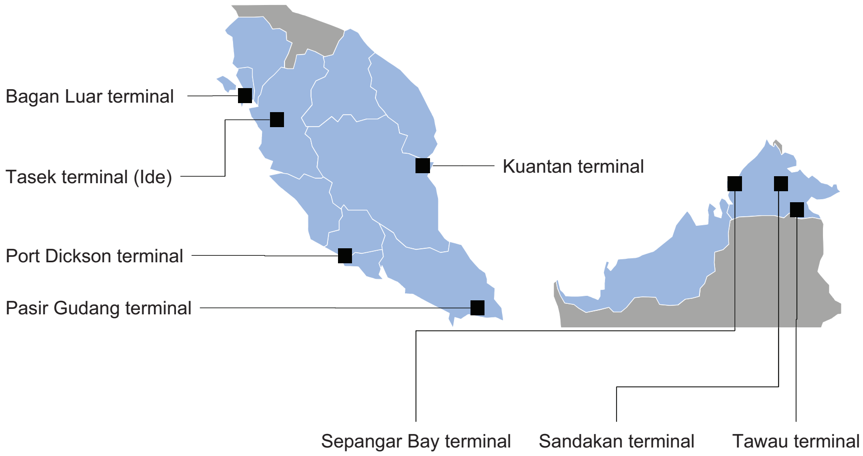
The Company has airport installations at the Ninoy Aquino International Airport and other airports in the Philippines located in major urban centers, such as Mactan, Lapu-Lapu City, Cebu Province, Laoag City, Cagayan de Oro City and Davao City. These installations provide storage of aviation fuels as well as refueling services for various aircraft.

Malaysia

The Company's products are distributed from the Port Dickson Refinery primarily through truck deliveries from the adjacent Port Dickson terminal. The remainder is delivered by coastal tankers to other distribution terminals in Peninsular Malaysia and Sabah. The Company's Malaysian distribution operation network includes eight product terminals (of which seven are active and one is idle) located in strategic locations across Peninsular and East Malaysia. The Port Dickson terminal is located at the Port Dickson Refinery, and the other terminals are located near major fuel product market areas.

The map below shows the geographic coverage of the Company's depots and terminals in Malaysia as of December 31, 2012.

Geographic coverage of the Company's depots and terminals in Malaysia



Note: Map includes only terminals.

Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline (the "MPP"), which is partly owned by the Company through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad ("PDB") and Shell Malaysia Trading Sdn Bhd ("Shell Malaysia"), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia.

The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal where inventory is commingled. The Company has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the Klang Valley Distribution Terminal. However, due to the economic inefficiency of hauling gasoline and diesel by tank truck from the Port Dickson Refinery to the Company's service stations in the Klang Valley, the Company intends to commence piping gasoline and diesel through the MPP to the Klang Valley Distribution Terminal, which will enable tank trucks to collect such products at the Klang Valley Distribution Terminal for delivery to Klang Valley service stations. The Company expects that this will reduce its distribution costs.

LPG is bottled at the Port Dickson terminal. Most redistribution centers and stockists collect bottled LPG directly from the Port Dickson terminal. The Company also has an LPG storage and bottling facility at West Port, which is a 50-50 joint venture between the Company and BH Petroleum Sdn Bhd.

CAPITAL EXPENDITURES PLAN

The Company has upgraded the Limay Refinery and expanded its retail service station network in the Philippines over the past several years and intends to continue to increase investments in these areas in order to optimize operational efficiency, reduce costs and increase market share, and the Company is also investing in its recently acquired Malaysian operations. Specifically, the Company intends to (i) complete the implementation of RMP-2, which will enable the Limay Refinery to further enhance its operational efficiencies and convert its current fuel oil production into White Products production, significantly increase the Company's production of petrochemicals and make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard, (ii) complete the construction of a new cogeneration power plant for the Limay Refinery, (iii) continue the expansion of its retail service station network in the Philippines, (iv) enhance the facilities at the Port Dickson Refinery to increase its utilization of heavier, more sour crude oil and to enable it to produce Euro 4M-standard fuels and (v) complete the rebranding and refurbishing of its retail service station network in Malaysia. The Company intends to finance these plans with net cash flows provided by operating activities as well as equity and debt to be determined at the time of financing.

The Company's estimated consolidated capital expenditures for 2013 are ₱ 51.9 billion, allocated as follows: approximately 72% for the implementation of RMP-2, approximately 13% for the cogeneration power plant project, approximately 2% for retail service station network expansion in the Philippines, approximately 1% for enhancing the facilities at the Port Dickson Refinery and approximately 3% for rebranding and refurbishing its retail service station network in Malaysia. As of December 31, 2012, the Company has spent an aggregate of approximately ₱ 58 billion on RMP-2, the cogeneration power plant and the Philippine retail service station expansion program. The Company expects to continue to make substantial capital expenditures after 2013 to complete the major projects described above and for other purposes. These capital expenditures are expected to be funded by a combination of net cash flows provided by operating activities and external financing sources, which include a portion of the proceeds of this offering. Since the net proceeds of the Original Securities, the New Securities and the Company's other cash resources will be insufficient to fully finance its planned capital expenditures, the Company will need to obtain additional financing. The Company's anticipated capital expenditures are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditures may change as projects are reviewed or contracts entered into and are subject to various factors, including market conditions, the general state of the Philippine economy, the Company's operating performance and cash flow and the Company's ability to obtain financing on terms satisfactory to management.

Capital Expenditure Projects

Limay Refinery

The Company completed Phase 1 of the Refinery Master Plan ("RMP-1") in May 2009, under which it completed the construction of the PetroFCC unit, the propylene recovery unit and the benzene-toluene extraction unit. RMP-1 enhanced the Limay Refinery's capability to convert low-margin fuel oil into White Products such as LPG, gasoline and diesel. RMP-1 also expanded the Company's venture into production of petrochemical feedstocks such as propylene, benzene, toluene and additional mixed xylene.

A significant portion of the Company's planned capital expenditures is allocated to complete the implementation of RMP-2, which involves further upgrades to the Limay Refinery and the addition of new facilities to enhance further the Limay Refinery's operational efficiencies and its capability to convert low-margin fuel oil into a broader range of White Products and petrochemical products. The Company expects that the increased production of White Products and petrochemical products will increase sales revenue and improve margins. As of December 31, 2012, more than three-quarters of the detailed engineering design for RMP-2 had been completed and approximately one-half of the engineering design, procurement activities and construction had been implemented. Upon the planned completion of RMP-2 in 2014, the Limay Refinery will be able to produce petcoke, which may be used as fuel for the new cogeneration power plant for the Limay Refinery, lowering the Company's power generation costs. The Company also expects RMP-2 to place the Limay Refinery's utilization, processing and energy efficiency on par with more advanced refineries in the region and improve its competitiveness. In addition, once fully implemented, RMP-2 will make the Company the only oil company in the Philippines capable of producing Euro IV-standard fuels, the global clean air standard.

Cogeneration Power Plant

The Company is undertaking a cogeneration power plant project next to the Limay Refinery to replace some of the Limay Refinery's existing turbo and steam generators. This power plant will utilize more efficient technology and is expected to generate power at lower costs. Upon completion of the first phase, expected in the first half of 2013, the cogeneration power plant will have two trains, each with two 35 MW turbo generators and two 200 MTH CFBs. This capacity will be sufficient to serve the Limay Refinery's current electricity and steam requirements. Testing of the first phase commenced in December 2012. The second phase of the project, which is expected to be completed in 2014, involves the construction of two additional 35 MW turbo generators and two additional 200 MTH CFBs. The additional capacity provided by these additional generators is expected to completely fulfill the Limay Refinery's electricity and steam requirements, including the increased demand arising from the full implementation of the RMP-2. The Company estimates that total project cost for both phases of the new cogeneration power plant will be approximately ₱ 21 billion, which the Company intends to finance with net cash flows provided by operating activities as well as equity and debt to be determined at the time of financing. The new cogeneration power plant will initially utilize coal as fuel and is expected to switch to petcoke once the Limay Refinery commences its planned petcoke production in 2014. The new cogeneration power plant will be connected to the national grid, and the Company expects that the excess capacity generated by the new power plant upon completion of each phase will be sold to the grid. This will improve the reliability, sourcing flexibility and cost efficiency of the Limay Refinery's power generation system to meet its growing steam and power requirements.

Philippine Service Station Network Expansion

To support growth in sales in the Philippines, the Company intends to continue to increase the number of its service stations in urban and rural areas. The significant growth of the Company's service station network is driven by the rapid establishment of the Company's pioneering *Petron Bulilit Stations*, which are small service stations that provide the Company with the flexibility to establish a presence even in remote rural areas and make the Company's products and services accessible to more Filipinos.

Port Dickson Refinery

The Company plans to enhance the facilities at the Port Dickson Refinery and to add new facilities, including a hydrotreater, to enable it to utilize heavier, more sour crude oil and to produce Euro 4M-standard fuels. The Company estimates that total project cost for enhancing the facilities at the Port Dickson Refinery will be approximately ₱ 1.7 billion, which the Company intends to finance with net cash flows provided by operating activities as well as equity and debt to be determined at the time of financing. The Company expects the Port Dickson Refinery to commence producing Euro 4M-standard fuels by the second half of 2015.

Malaysian Service Station Network Rebranding

The Company is in the process of rebranding and refurbishing its network of 555 retail service stations in Malaysia under the *Petron* brand. A pilot scheme of rebranding and refurbishing 69 service stations was successfully completed on schedule in December 2012. The Company has budgeted approximately ₱ 4 billion for this project and expects the rebranding and refurbishing to be completed in 2014.

COMPETITION

The Philippines

In the Philippines, the Company operates in a deregulated business environment, selling its products to individual, commercial and industrial customers. The enactment of the Downstream Oil Industry Deregulation Law in 1998 effectively removed the rate-setting function of the Philippine government through what was then known as the Energy Regulatory Board, leaving price-setting to market forces. It also opened the oil industry to free competition. See "Regulatory and Environmental Matters" for a more detailed discussion of the oil deregulation law.

The Philippine oil industry is dominated by three major Philippine oil companies: the Company, Shell and Chevron (formerly Caltex Philippines), which, based on industry data from the DOE for the nine months ended September 30, 2012, together constitute 73.7% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 100 other industry market participants, rendering the petroleum business more competitive. The Company and Shell operate the only refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, the Company competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

The Company participates in the reseller (service station), LPG, industrial and lube sectors, through its network of service stations, terminals and bulk plants, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. The small market participants also continue to grow, with station count increasing from 695 in 2001 to 1,783 stations as of September 30, 2012. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. Although Petron is the biggest participant in the Philippine LPG sector, the new participants in this sector, led by Liquigaz, had a collective market share of 58.5% as of September 30, 2012. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among over 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

The Company is the leader in the Philippine oil industry, with an overall market share of 38.8% of the Philippine oil market, ahead of the other two major Philippine oil companies, which have market shares of 24.6% and 10.3%, in each case in terms of sales volume based on industry data from the DOE for the nine months ended September 30, 2012. Approximately 100 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. The Company is the leader in terms of sales volume in the retail, industrial and LPG market segments and a strong second, as compared with the market shares of the two other major Philippine oil companies, in the lubricants and greases market segment based on industry data from the DOE for the nine months ended September 30, 2012. The Company believes that its competitive advantages include organization, technology, assets, resources and infrastructure. The Company continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, the Company's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHPetrol. Of these competitors, Petronas and Shell also have refinery operations in Malaysia. The Malaysian government regulates the pricing of gasoline and diesel at retail service stations through the APM. See "Regulatory and Environmental Matters—Malaysia—Sale and Pricing of Refined Petroleum Products—Price Control and Anti Profiteering Act, 2011."

The Company continues to face intense competition in the Malaysian industrial and wholesale markets from other local and multi-national oil companies. The Company uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini-stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Competition in diesel sales is very intense, as Malaysian refiners generally prefer to sell locally rather than to export. The aviation market is also very competitive, as the three local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability, and the Company does not participate in sales to these airports.

In the LPG segment, the APM applies only for sales of LPG in 14-kg or smaller cylinders. Competition in this market is driven by supply economics, dealer network efficiency and customer service. The Company, being well established, remains competitive in this segment. The industry is currently lobbying for a review of the APM for LPG sales in Malaysia to reflect rising import costs, which have adversely affected suppliers who are reliant solely on LPG imports.

The lubricants and specialties market is dominated by the traditional global brands as well as Petronas. The Company has the advantage of an extensive network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. The Company believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain.

EMPLOYEES

As of September 30, 2012, the Company had 2,184 employees, comprising the chairman, the president, 23 vice presidents, 1,133 managerial, professional and technical employees, 564 rank and file employees and 462 employees of the Company's Malaysian operations. Approximately 79% of the Company's employees are based in the Philippines, with the remaining 21% in Malaysia, including employees who have been seconded to Malaysia from the Company's Philippine operations. The Company expects to hire additional employees to support its upgrade of the Limay Refinery and continued retail service station network expansion in the Philippines. The Company believes that it has a well-trained and experienced pool of employees. As of September 30, 2012, 26% of the Company's employees had worked with it for over 20 years. The average tenure of the Company's employees is approximately 14 years in the Philippines and approximately 12.5 years in Malaysia. The Company continues to implement programs for its employees' professional and personal development. The Company aims to support its core operating functions through development and training programs, such as its apprenticeship engineering program, its scholarship programs, its dealer management course and its trainee pool program.

The Company has collective bargaining agreements ("CBAs") with three labor unions in the Philippines: Petron Employees Association with 156 members, Petron Employees Labor Union with 34 members and the Bataan Refiners Union of the Philippines with 362 members. As of September 30, 2012, approximately 32% of the Company's employees in the Philippines were covered by CBAs.

The Company has CBAs with two labor unions in Malaysia: the National Union of Petroleum and Chemical Industry Workers with 120 members and the Sabah Petroleum Industry Workers Union with 8 members. As of September 30, 2012, approximately 29% of the Company's employees in Malaysia were covered by CBAs.

The Company has not experienced any strikes or work stoppages for more than ten years. None of the Company's CBAs are due to expire before December 2013. The Company considers its relationship with its employees to be good.

In the Philippines, in addition to statutory benefits, the Company provides hospitalization insurance; life insurance; vacation, sick and emergency leaves; and computer, company and emergency loans to employees. It has also established a savings plan wherein an eligible employee may apply for membership and have the option to contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a maximum of 5% to a member-employee's account in the savings plan. The Company has adopted the "*Rewarding Excellence through Alternative Pay Program*," a performance incentive program that rewards eligible employees who contribute to the achievement of the Company's annual business goals. The benefits in Malaysia are substantially similar to those in the Philippines, with the exception of the savings plan and variable pay scheme. Malaysian employment regulations require employers and employees to contribute to an employees' provident fund (the "EPF") to provide for the retirement and other needs of employees in Malaysia. Under present regulations, employees contribute 11% of their monthly salary to the EPF via payroll deductions. Employers are required to contribute a minimum amount equivalent to 12% to 13% of an employee's monthly salary to the EPF. Under employment contracts and collective agreements entered into by the Company with its employees in Malaysia, the Company contributes up to 12% and 16% of the salaries of its managerial, professional and technical ("MPT") employees and its non-MPT employees, respectively, to the EPF. As the Malaysian government does not require employers to make contributions to the EPF with respect to foreign workers, the Company does not make contributions to the EPF for its foreign employees.

RESEARCH AND DEVELOPMENT

To enhance productivity, efficiency, reduce costs and strengthen the competitiveness of the Company, the Company engages in research and development to identify improvements that can be made to its production processes. The development, reformulation and testing of new products are continuing business activities of the Company. As part of its product innovation strategy, the Company produces *Blaze 100*, the only gasoline with a research octane number of 100 available in the Philippine retail market. The Company also voluntarily submits its products (*2T oils* and *Carbon Buster*) for marketing claim certification to the Philippine Department of Science and Technology—Industrial Technology Development Institute. Recently, the American Petroleum Institute Engine Oil Licensing and Certification System has granted the Company permission to use the API

Service Certification mark for its *Ultron Race* and *Rev-X All Terrain* engine oil products. Similarly, approval certifications were granted by original engine manufacturers, including Mercedes Benz, Porsche, BMW and Volkswagen, allowing the use of these products in their engines. The Company is committed to continuing to develop high quality and innovative products to meet the requirements of the market. The Company believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions.

As of September 30, 2012, 19 of the Company's employees were employed in the Research and Development Group. The Research and Development Group has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. It is engaged in the customization of products at globally competitive quality and performance. It also manages a petroleum and allied products testing facility that meets global standards. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

INTELLECTUAL PROPERTY

The Company has existing and pending trademark registrations for its products for terms ranging from 10 to 20 years. It also has copyrights for its seven-kg LPG container, "*Gasulito*" with stylized letter "P" and two flames, for "*2T Powerburn*," and for Petron New Logo (22 styles). Copyrights subsist during the lifetime of the creator and for another 50 years after the creator's death. The Company has not had any significant disputes with respect to any of its trademarks or copyrights.

The Company has filed trademark registrations in Malaysia for more than 70 brands relating to its Malaysian operations. It has obtained copyright protection for the stylized letter "P" and has registered other trademarks in Malaysia, including "*Gasul*", "*Fiesta Gas*" and "*Energen*." The Company has filed an application for the right to use the "*Petron*" name with the Malaysian Intellectual Property Office, and a third party has filed a notice opposing the Company's application. The Company and the third party are engaged in discussions to find a mutually acceptable solution. However, even if it were ultimately prevented from using the name "*Petron*" in Malaysia, the Company does not expect that this would have a material impact on its Malaysian operations.

OPERATING SITES

The Company owns the largest integrated petroleum refinery complex in the Philippines located in Limay, Bataan. It operates a network of terminals and depots as bulk storage and distribution points throughout the Philippines, as well as LPG plants in its Pasig terminal, San Fernando depot and Legaspi depot and a number of terminals in Malaysia. Its airport installations serve the fuel requirements of the airline industry and other aviation accounts. The following tables show the type and location of the Company's operating sites (excluding service stations) in the Philippines and Malaysia, respectively.

PETRON TERMINALS, DEPOTS, AIRPORT INSTALLATIONS, SALES OFFICES AND MANUFACTURING PLANTS IN THE PHILLIPINES

	Luzon	Visayas	Mindanao
Terminals	Pandacan, Manila	Mandaue, Cebu	
	Limay, Bataan		
	Mabini, Batangas		
	Pasig, Metro Manila		
Depots	Aparri, Cagayan	Bacolod, Negros Occidental	Davao City
	Navotas, Metro Manila	Iloilo City	Iligan City, Lanao del Norte
	Pasacao, Camarines Sur (RA)	Isabel, Leyte	Jimenez, Misamis Occidental
	Puerto Princesa, Palawan	Ormoc, Leyte	Nasipit, Agusan del Norte
	Poro Point, La Union	Culasi, Roxas City (RA)	Tagoloan, Misamis Oriental
	Rosario, Cavite	Anibong, Tacloban City	Zamboanga City (RA)
	San Fernando, Pampanga	Tagbilaran City, Bohol (RA)	Bawing, General Santos City
	Legaspi, Albay		
Airport Installations	NAIA, Metro Manila	Mactan, Lapu-Lapu City, Cebu	Cagayan De Oro City
	Laoag, Ilocos Norte		Davao City
Sales Offices	San Jose, Occidental Mindoro	Amlan, Negros Occidental	
	Calapan, Oriental Mindoro		
	Masbate City, Masbate		
Manufacturing Plants	Pandacan, Manila		
	Subic, Zambales		

Note:

(1) RA indicates that a rationalization agreement is in place in relation to the relevant depot, which is a contract between the owner-operator of the depot and another oil company regarding product supply and the use of the facilities to rationalize operations and reduce costs.

PETRON TERMINALS IN MALAYSIA

Peninsular Malaysia	Sabah
Bagan Luar	Sepangar Bay
Tasek (idle)	Sandakan
Port Dickson	Tawau
Kuantan	
Pasir Gudang	

All facilities owned by the Company are free from liens and encumbrances.

The Company entered into commercial leases with the PNOC for parcels of land occupied by its Limay Refinery, depots, terminals and certain of its service stations. The lease agreements include upward escalation adjustment of the annual rental rates. In 2009, the Company renewed its lease with PNOC (through NVRC) for the continued use of the Limay Refinery land for 30 years starting January 1, 2010 (renewable upon agreement of the parties for another 25 years). See "Related Party Transactions." The Company is currently in negotiations with PNOC for the early renewal of leases for 22 terminals, depots and sales offices and 68 service stations that will expire in August 2018. Expenses relating to the PNOC leases amounted to ₱ 160 million in 2011 and ₱ 123 million for the nine months ended September 30, 2012.

The Company leases 103 parcels of land for service stations and depots from NVRC. Expenses relating to the NVRC leases amounted to ₱ 308.8 million in 2011 and ₱ 272.4 million for the nine months ended September 30, 2012.

The Company also leases land for its service stations from third parties. As of September 30, 2012, there were leases covering 604 service stations: 438 in Luzon, 82 in Visayas and 84 in Mindanao. Payments under these leases amounted to ₱ 494.4 million in 2011 and ₱ 375.7 million in the nine months ended September 30, 2012.

In Malaysia, the land on which the Company's retail service stations are based is either owned by the Company or leased from third parties. As of September 30, 2012, the Company owned 161 parcels of land for service stations and leased 273 additional parcels of land for its service stations from third parties. Payments under these leases amounted to approximately RM 15 million in 2011 and approximately RM 6 million in the nine months ended September 30, 2012. The Port Dickson Refinery occupies a 604-acre site. The Company holds freehold title to 430 acres of this site and leases the remaining 174 acres pursuant to a 99-year lease that expires in 2060.

INSURANCE

The Company has insurance policies that cover its properties and liabilities. The Company employs risk management for purposes of analyzing the risks faced by its businesses in determining the appropriate insurance policies. The Company's insurance coverage includes property, marine cargo and third party liability. The Company's business interruption insurance has a US$94.5 million limit that covers losses at the Limay Refinery. The Company considers its insurance coverage to be in accordance with industry standards.

All insurance policies relating to the Company's Philippine operations are written by its wholly-owned insurance subsidiary, Petrogen. The majority of the risks are reinsured with Standard & Poor's A-rated foreign insurers through Ovincor, Petron's Bermuda-based captive insurance subsidiary. The Company's Malaysian operations are insured with local Malaysian insurance companies, as required by Malaysian law.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Philippines

The Company is subject to a number of employee health and safety regulations in the Philippines. For example, the Company is subject to the occupational safety and health standards promulgated by the Philippine Department of Labor and Employment. The Company has a Corporate Technical and Engineering Services Group ("CTESG") responsible for formulating, implementing and enforcing the Company's employee health and safety policies, as well as ensuring compliance with applicable laws and regulations.

The Company has conducted training and skills development for employees, contractors and other business partners. The training programs were designed to raise awareness and impart vital knowledge in connection with oil spill response, fire-fighting and basic safety. The Company's terminals and depots have oil spill contingency plans, which can be executed whenever necessary. All of the Company's terminals and depots were given the 2011 Safety Milestone Award by the Philippine Department of Labor and Employment's Bureau of Working Conditions for safety achievements in 2010.

The Company is also subject to various Philippine environmental protection laws and regulations. For example, the Company is subject to extensive regulation by the Philippine Department of Environment and Natural Resources ("DENR"). Among others, these DENR regulations require the Company to designate and appoint a DENR-accredited pollution control officer for every installation, to engage DENR-accredited transporters and treaters of hazardous waste, to secure environmental compliance certificates, discharge permits, permits to operate air pollution sources and hazardous waste generators, and to submit regular monitoring reports. The Company's CTESG provides technical assistance and consultancy services on areas of environmental management and engineering and securing of permits during project planning, design and implementation. It is also responsible for formulating and implementing an environmental management system ("EMS") based on ISO 14001 standards in the Limay Refinery and the Company's depots, terminals and service stations. A number of the Company's service stations in Davao and General Santos are now implementing EMS, a first in the Philippine oil industry. The CTESG, with assistance from external environmental instructors, regularly conducts environmental awareness training for the Company's employees, contractors and service station dealers. The training module is accredited by the DENR's Environmental Management Bureau. In addition, the CTESG conducts an annual compliance audit of the Company's facilities to ensure compliance with applicable environmental laws and regulations, as well as with the Company's internal policies, and advises the Company's senior management of critical environmental issues.

As part of its advocacy functions, the CTESG is also actively involved in public stakeholder consultations during the drafting of Philippine environmental protection laws and regulations. The Company also actively participates in local and regional oil spill response consortiums, including the Waterborne Industry System and Oil Spill Response Ltd.

As of September 30, 2012, the Company is in material compliance with applicable environmental laws in the Philippines. In particular, the Company has spent approximately US$100 million in improvements to the Limay Refinery since 2005 to ensure compliance with the more stringent requirements of the Philippine Clean Air Act. See "Regulatory and Environmental Matters" for a more detailed discussion of applicable environmental regulations.

Malaysia

The Company is subject to local safety, health and environmental regulation in Malaysia, including (i) the Occupational Safety and Health Act 1994, as amended, and regulations made pursuant thereto, which are administered by the Malaysian Department of Safety and Health, (ii) the Environmental Quality Act 1974, as amended, and regulations made pursuant thereto, which are administered by the Malaysian Department of Environment and (iii) the Fire Services Act 1988, as amended, and regulations made pursuant thereto, which are administered by the Fire Rescue and Services Department. The Company has a corporate safety, security, health and environment department that is responsible for formulating, implementing and enforcing the Company's safety, health and environmental policies in Malaysia, coordinating and conducting relevant programs to raise the level of awareness of SSHE and ensuring compliance with applicable laws and regulations. For more than ten years, the Port Dickson Refinery and the Company's terminals and other businesses in Malaysia have attained good safety performance without any lost-time injury for employees or contractors. The Port Dickson Refinery and the Company's Malaysian terminals have been awarded annual recognition of their safety and health performance by the MSOSH for more than five consecutive years. The Port Dickson Refinery has also been awarded the Prime Minister Hibiscus Award for good environmental performance. As prescribed by local regulatory requirements, the Port Dickson Refinery and the Company's Malaysian terminals have established emergency response and oil spill contingency plans. For more than fifteen years, the Company's Malaysian operations have actively participated in local and regional oil spill response consortiums, such as the Petroleum Industries of Malaysia Mutual-Aid Group and Oil Spill Response Ltd.

The Company strives to achieve and sustain good SSHE performance in Malaysia through the implementation of various key programs including (i) the SMS, which provides a structured approach to the management of risks related to personal and operational risks as well as to ensuring regulatory compliance, and (ii) the LPS, which was adopted to prevent or reduce losses and incidents using behavior-based tools and other safety management techniques.

LEGAL PROCEEDINGS

As set forth below, the Company is involved in ongoing legal cases the outcome of which may or may not have a material adverse effect on its operations and profitability. While the final outcomes of these legal proceedings are not certain, the Company believes it has strong legal grounds in each of these legal proceedings, and has not made any provisions in its financial statements for possible liabilities arising from adverse results of these legal proceedings.

Tax Credit Certificates Related Cases

In 1998, the Philippine Bureau of Internal Revenue ("BIR") issued a deficiency excise tax assessment against the Company. The assessment related to the Company's use of ₱ 659 million worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Company by suppliers as payment for fuel purchases. The Company contested the BIR's assessment before the Philippine Court of Tax Appeals ("CTA"). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, the Company was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Philippine Court of Appeals ("CA") promulgated a decision in favor of the Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by the Company as payment were fraudulent. The BIR filed a motion for reconsideration on April 19, 2012, which was denied by the CA in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court of the Philippines ("SC") through a petition for review on *certiorari* dated December 5, 2012.

Pandacan Terminal Operations

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the Company, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Company, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and 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, Social Justice Society ("SJS") filed a petition with the SC against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the 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, the 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 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 Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the SC rendered a decision (the "March 7 Decision") directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Company, together with Shell and Chevron, filed motions with the SC seeking intervention and reconsideration of the March 7 Decision. In the same year, the Company also filed a petition before the RTC of Manila seeking 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 Ordinance 8119 contravened the provisions of Philippine Presidential Decree No. 1067 of December 31, 1976, also known as "The Water Code of the Philippines" (the "Water Code"). On February 13, 2008, the SC resolved to allow the Company, Shell and Chevron to intervene in the case filed by SJS, but denied their motion for reconsideration. The SC 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, rendering any issues pertaining thereto moot and academic (the "August 24 Decision"). The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nevertheless, the RTC of Manila upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Company sought clarification and partial consideration of the August 24 Decision and the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by the Company. The Company filed a notice of appeal on January 23, 2013.

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

Oil Spill Incident in Guimaras

On August 11, 2006, M/T Solar I, a third party vessel contracted by the 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 M/T Solar I liable. The DOJ found the Company not criminally liable, but the SBMI found that the Company had overloaded the vessel. The Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication and is awaiting its resolution. The Company believes that the SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, who are charterers.

In 2009, complaints for violation of the Philippine Republic Act No. 9275, or the "Philippine Clean Water Act," and homicide and less serious physical injuries were filed against the 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 M/T Solar I and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former president and chairman of the Company, respectively, for violation of the Philippine 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 alleged. The provincial prosecutor and the private prosecutor in the case filed a motion for reconsideration, which was denied on August 13, 2012.

Other complaints for non-payment of compensation for the clean-up operations during and following the oil spill have been filed against the Company 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 aggregate claims amount to ₱ 292 million. The pre-trial of the cases is scheduled to take place on March 25, 2013.

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, the Company believes that the final outcome of these other proceedings will not have a material adverse effect on its business, financial condition or results of operations.

REGULATORY AND ENVIRONMENTAL MATTERS

The statements herein are based on the laws in force as of the date of this offering circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

PHILIPPINES

Downstream Oil Industry Deregulation Law

Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998 (the "Oil Deregulation Law"), provides the regulatory framework for the downstream oil industry in the Philippines.

Under the Oil Deregulation Law, any person may import or purchase any quantity of crude oil and petroleum products from foreign and domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Law in March 1998 through Department Circular No. 98-03-004.

The DOE is the lead government agency overseeing the oil sector. With the enactment of the Oil Deregulation Law, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. DOE's current function is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Law include the following:

(a) monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;

(b) monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;

(c) maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;

(d) immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and

(e) in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (the "ECC") prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau (the "EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requirement for the issuance of an ECC, an environmentally critical project must submit an Environment Impact Statement ("EIS") to the EMB while a project in an environmentally critical area is generally required to submit an Initial Environmental Examination to the proper DENR regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EIS and ECC are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and the ecological as well as environmental integrity. The Initial Environmental Examination refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an Initial Environmental Examination may vary from project to project, as a minimum it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Philippine government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System; and that the proponent is committed to implementing its approved Environmental Management Plan in the EIS or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not occur later than the initial construction phase of the project. The Environmental Monitoring Fund must be used to support the activities of a multi-partite monitoring team, which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The Biofuels Act of 2006

Republic Act No. 9367, also known as "The Biofuels Act of 2006", aims to reduce the dependence of the transport sector on imported fuel and, pursuant to such law, regulations mandate that all premium gasoline fuel sold by every oil company in the Philippines should contain 10% bioethanol starting August 6, 2011. For diesel engines, the mandated biodiesel blend in the country was increased from 1% to 2% starting February 2009.

In 2008, a Joint Administrative Order known as the "Guidelines Governing the Biofuel Feedstock Production and Biofuel Blends Production, Distribution and Sale" (the "Guidelines") was issued by various Philippine government agencies. The Guidelines provide for responsibilities of oil companies in the sourcing and blending of biodiesel and bioethanol with diesel and gasoline. The Guidelines mandate that oil companies should source biofuels only from biofuel producers accredited by the DOE or from biofuel distributors registered with the DOE. Moreover, unless authorized by DOE to import in case of shortage of supply of locally-produced bioethanol as provided for under the Act, an oil company's failure to source its biofuels from accredited biofuels producers and/or registered biofuel distributors would constitute a prohibited act.

In 2011, the DOE issued Circular No. 2011-12-0013, entitled "Guidelines on the Utilization of Locally-Produced Bioethanol in the Production of E-Gasoline Consistent with the Biofuels Act of 2006" (the "Circular"). The Circular requires oil companies operating in the Philippines to submit to the DOE's Oil Industry Management Bureau certain reports in order for the Oil Industry Management Bureau to monitor the oil companies' compliance with the Circular, including a quarterly certification on compliance with local monthly allocations for the use of locally-sourced bioethanol during the previous quarter and the 10% mandated blend of biofuel by volume into all gasoline fuel distributed and sold.

Renewable Energy Act of 2008

Republic Act No. 9513, also known as "The Renewable Energy Act" aims to promote development and commercialization of renewable and environment-friendly energy resources such as biomass, solar, and wind through various tax incentives. Some of the tax incentives granted to renewable energy developers under the law include (i) a seven-year income tax holiday; (ii) duty free importation of renewable energy machinery, equipment, and materials; (iii) special realty tax rates on equipment and machinery; (iv) zero percent VAT rate for power generated from these energy sources; and (v) the imposition of a reduced corporate tax of 10% on its net taxable income after the income tax holiday.

Philippine Clean Air Act of 1999

Republic Act No. 8749, otherwise known as the "Philippine Clean Air Act", provides more stringent fuel specifications over a period of time to reduce emission that pollutes the air. The Philippine Clean Air Act specifies the allowable sulfur and benzene content for gasoline and automotive diesel. Under the law, oil firms are mandated to lower the sulfur content of automotive diesel oils to 0.05% by January 1, 2004 nationwide. The law also regulates the use of any fuel or fuel additives. Furthermore, the Philippine Clean Air Act prohibits a manufacturer, processor or trader of any fuel or additive to import, sell, offer for sale, or introduce into commerce such fuel or additive unless these have been registered with the DOE. All the requirements of the said law have been implemented, starting with the phase-out of leaded gasoline in Metro Manila in April 2000 and all over the country in December 2000.

The Technical Committee on Petroleum Products and Additives sets the standards for certain petroleum products following strict time-bound and quality-specific targets under the mandate of the Philippine Clean Air Act and the DOE initiative on alternative fuels.

Philippine Clean Water Act of 2004

In 2004, Republic Act No. 9275, or the "Philippine Clean Water Act", was enacted to streamline processes and procedures in the prevention, control, and abatement of pollution in the country's water resources. The EMB, in partnership with other Philippine government agencies and the respective local government units, is tasked by the Implementing Rules of the Philippine Clean Water Act to identify existing sources of water pollutants and strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

Oil Pollution Compensation Act of 2007

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, provides that any person who has received more than 150,000 tons of "contributing oil" (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons.

Other Regulations on Water Pollution

Philippine maritime laws and regulations are enforced by two Philippine government agencies: the Maritime Industry Authority ("MARINA") and the Philippine Coast Guard. Both are agencies under the Philippine Department of Transportation and Communications.

The MARINA is responsible for integrating the development, promotion, and regulation of the maritime industry in the Philippines. It exercises jurisdiction over the development, promotion, and regulation of all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing, and/or maintaining vessels, or component parts thereof, of managing and/or operating shipping lines, shipyards, dry docks, marine railways, marine repair ships, shipping and freight forwarding agencies, and similar enterprises.

To address issues on marine pollution and oil spillage, the MARINA mandated the use of double-hull vessels beginning at the end of 2008 for transporting Black Products and by 2011 for White Products in certain circumstances.

The Philippine Coast Guard, in a 2005 Memorandum Circular, provided implementing guidelines based on the International Convention for the Prevention of Pollution from Ships, MARPOL 73/78. The guidelines provide that oil companies in major ports or terminals/depots are required to inform the Philippine Coast Guard through its nearest station of all transfer operations of oil cargoes in their respective areas. Furthermore, oil companies and tanker owners are required to conduct regular team trainings on managing oil spill operations including the handling and operations of MARPOL combating equipment. A dedicated oil spill response team is required to be organized to react to land and ship-originated oil spills.

Moreover, both the Philippine Clean Water Act and the Philippine Coast Guard Guidelines provide that the spiller or the person who causes the pollution have the primary responsibility of conducting clean-up operations at its own expense.

Foreign Investment Laws and Restrictions

Retail Trade Liberalization Act

Republic Act No. 8762, otherwise known as the Retail Trade Liberalization Act of 2000 ("R.A. 8762"), was enacted into law on March 7, 2000. R.A. 8762 liberalized the Philippine retail industry to encourage Filipino and foreign investors to forge an efficient and competitive retail trade sector in the interest of empowering the Filipino consumer through lower prices, high quality goods, better services, and wider choices. Prior to the passage of R.A. 8762, retail trade was limited to Filipino citizens or corporations that are 100% Filipino-owned.

"Retail Trade" is defined by R.A. 8762 to cover any act, occupation, or calling of habitually selling direct to the general public any merchandise, commodities, or goods for consumption. The law provides that foreign-owned partnerships, associations and corporations formed and organized under the laws of the Philippines may, upon registration with the SEC and the Philippine Department of Trade and Industry ("DTI") or in case of foreign-owned single proprietorships, with the DTI, engage or invest in the retail trade business, in accordance with the following categories:

- Category A—Enterprises with paid-up capital of the equivalent in Philippine Pesos of less than US$2.5 million shall be reserved exclusively for Filipino citizens and corporations wholly-owned by Filipino citizens.

- Category B—Enterprises with a minimum paid-up capital of the equivalent in Philippine Pesos of US$2.5 million but less than US$7.5 million may be wholly owned by foreigners except for the first two years after the effectiveness of R.A. 8762 wherein foreign participation shall be limited to not more than 60% of total equity.

- Category C—Enterprises with a paid-up capital of the equivalent in Philippine Pesos of US$7.5 million or more may be wholly owned by foreigners, provided, that in no case shall the investments for establishing a store in Categories B and C be less than the equivalent in Philippine Pesos of US$830,000[(1)]; and

- Category D—Enterprises specializing in high-end or luxury products with a paid up capital of the equivalent in Philippine Pesos of US$250,000 per store may be wholly-owned by foreigners.

(1) Category C ceased to be available as a permitted category with effect from March 25, 2002.

No foreign retailer is allowed to engage in retail trade in the Philippines unless all the following qualifications are met:

- A minimum of US$200 million net worth in its parent corporation for categories B and C, and US$50 million net worth in its parent corporation for category D;

- Five retail branches or franchises in operation anywhere around the world unless such retailers has at least one store capitalized at a minimum of US$25 million;

- Five-year track record in retail; and

- Only nationals from, or judicial entities formed or incorporated in, countries which allow the entry of Filipino retailers, shall be allowed to engage in retail trade in the Philippines.

The implementing rules of R.A. 8762 define a foreign retailer as an individual who is not a Filipino citizen, or a corporation, partnership, association, or entity that is not wholly-owned by Filipinos, engaged in retail trade. The DTI is authorized to pre-qualify all foreign retailers, subject to the provisions of R.A. 8762, before they are allowed to conduct business in the Philippines.

Foreign Investment Act of 1991

The Foreign Investment Act of 1991 ("FIA") liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Foreign Investment Negative List. This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. The oil refining and distribution business is not found in the latest (9^{th}) Negative List of the FIA.

In connection with the ownership of private land, however, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

(a) a citizen of the Philippines;

(b) a domestic partnership or association wholly-owned by citizens of the Philippines;

(c) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;

(d) a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos; or

(e) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of Philippine Nationals.

For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation. A corporation with more than 40% foreign equity may be allowed to lease private land for a period of 25 years, renewable for another 25 years.

Local Government Code

The Local Government Code ("LGC") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("LGU") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, though its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Other Regulatory Requirements

Governmental approval of the Company's products and services is generally not required. However, petroleum products refined at the Limay Refinery are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards. The Oil Deregulation Law also requires the registration with the DOE of any fuel additive prior to its use in a product.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. These certificates have to be submitted to the DOE for monitoring (not regulation) purposes. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/ transshipment; (c) distribution/operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper governmental authorities.

Other Relevant Tax-related Regulations

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3% to 5%, but was later reduced to 3% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3% import duty on crude oil shall be adjusted to 2%, 1% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate the tariff rates on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ASEAN Trade in Goods Agreement ("ATIGA"). Under the ATIGA, crude oil and refined petroleum products imported from Association of Southeast Asian Nations ("ASEAN") Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was further increased to 12% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱ 4.35 per liter of volume capacity.

MALAYSIA

Petroleum Development Act, 1974

The Petroleum Development Act, 1974 (the "PDA"), which came into force on October 1, 1974, and the Petroleum Regulation 1974, which was enacted pursuant to the PDA (the "Petroleum Regulation"), are the primary legislation governing downstream oil activities in Malaysia. Pursuant to the Petroleum Regulation, two government bodies are vested with powers to regulate all downstream activities, namely:

(a) the Ministry of International Trade and Industry ("MITI"), which is responsible for the issuance of licenses for the processing and refining of petroleum and the manufacture of petrochemical products; and

(b) the Ministry of Domestic Trade, Cooperative and Consumerism ("MDTCC"), which is responsible for regulating the marketing and distribution of petroleum products.

The Company has obtained specific licenses from the MITI for the production of the Company's products. Specific licenses are required pursuant to Section 6 of the PDA for the business of processing or refining petroleum or manufacturing petrochemical products from petroleum at the Port Dickson Refinery. Contravention of the provisions of the PDA or failure to comply with any term or condition of any permission granted thereunder is an offense and is subject to a fine not exceeding RM1 million or imprisonment for a term not exceeding five years or both.

Petroleum (Safety Measures) Act, 1984

The storage and handling of crude oil and oil products and the utilization of equipment and/or appliances used in the downstream oil industry in Malaysia are controlled and governed by the Petroleum (Safety Measures) Act, 1984 (the "PSMA") and the regulations made thereunder. The PSMA also regulates the transportation of petroleum by road, railway, water, air and pipeline. A unit of the MDTCC known as The Petroleum Safety Unit has been established to administer the PSMA.

Biofuel Industry Act, 2007

The Biofuel Industry Act, 2007 (the "MBIA") was enacted on July 18, 2007. The MBIA provides for the mandatory use of biofuel, the licensing of activities relating to biofuel and other matters connected and incidental thereto. The MBIA is designed to regulate the biofuel industry in Malaysia and to promote the mandatory use of

Malaysia's domestic palm biodiesel, which is a blend of 5% POME and 95% diesel. The MBIA empowers the Minister of Plantation Industries and Commodities to prescribe (a) the percentage by volume of palm ole and/or methyl ester to be blended in any fuel or (b) the activities in which the use of (i) palm ole and/or methyl ester, (ii) palm ole and/or methyl ester blended with any other fuel or (iii) any other biofuel is to be made mandatory. The MBIA limits the percentage of POME that can be used in a biodiesel mix to a maximum of 5%.

The MBIA is being implemented in stages. The first stage, which covers the Klang Valley only, is ongoing, and the second stage, which applies only to subsidized diesel sold at retail service stations, is expected to be implemented throughout Malaysia by the end of 2013.

Sale and Pricing of Refined Petroleum Products

Control of Supplies Act, 1961

The Control of Supplies Act, 1961 (the "CSA") was enacted primarily to regulate, prohibit and control the movement of controlled articles in Malaysia. The CSA also regulates the distribution of any controlled article and limits the quantity of any controlled article that may be acquired or held by any person. Petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG have all been classified as controlled articles under the CSA.

Pursuant to the Control of Supplies Regulations 1974, issued pursuant to the CSA, a license is required for any person to deal, by wholesale or retail, in any scheduled article (including petrol, motor spirit, or motor gasoline of all grades, diesel fuel and LPG) or to manufacture any scheduled article. A separate license is required for each place of business where the scheduled article is manufactured or sold. The Controller of Supplies has the authority to enforce the rules and regulations provided in the CSA and related regulations.

Price Control and Anti Profiteering Act, 2011

The Price Control and Anti Profiteering Act, 2011 (the "PCAPA") replaced the Price Control Act, 1946 and came into force on April 1, 2011. The PCAPA provides for the control of prices of goods, whereby the Malaysian government may, among other things, determine the maximum, minimum or fixed prices for the manufacture, production, wholesale or retail of goods.

The Malaysian government generally mandates fixed prices for (a) sales of formulated unleaded gasoline fuel with an octane index of 95 ("Mogas 95"), (b) diesel sales to retail customers, as well as to the commercial transportation and fisheries sectors, and (c) LPG sales to retail customers, to ensure that increases in international crude oil prices are not borne fully by consumers of such products in Malaysia. Subject to a quota, the Malaysian government subsidizes sales of these products using a formula known as the automatic pricing mechanism. A subsidy is payable to the seller pursuant to the APM if the mandated price of the relevant product is less than the total built-up cost (as described below) of such product. Conversely, a sales tax is payable by the seller if the mandated price of the relevant product exceeds the total built-up cost of such product.

As of September 30, 2012, the total built-up cost is determined by aggregating the cost of the relevant product and certain predetermined government-specified amounts, as follows:

	Mogas 95	Diesel	Retail LPG
Cost of Product:	Based on Mean of Platts Singapore	Based on Mean of Platts Singapore	Based on Saudi CP
Alpha:	5 sen/liter	4 sen/liter	12.36 sen/kg
Freight, Distribution and Marketing Cost:	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 9.54 sen/liter Sabah: 8.98 sen/liter Sarawak: 8.13 sen/liter	Peninsular Malaysia: 38.95 sen/kg Sabah: 53.10 sen/kg Sarawak: 52.26 sen/kg

	Mogas 95	Diesel	Retail LPG
Oil Company Margin:	5 sen/liter	2.25 sen/liter	11.35 sen/kg
Dealer Margin:	12.19 sen/liter	7 sen/liter	Peninsular Malaysia: 21.42 sen/kg Sabah: 21.67 sen/kg Sarawak: 21.67 sen/kg

The specified amounts for alpha, freight, distribution and marketing cost, oil company margin and dealer margin are fixed by the Malaysian government and subject to change. The Malaysian government has not changed the specified amounts since 2006.

As of September 30, 2012, the Malaysian government-mandated prices for the products that are covered by the APM were RM 1.90 per liter for Mogas 95, RM 1.80 per liter for diesel and RM 1.90 per kilogram for LPG. The government-mandated price of RM1.80 per liter for diesel applies to sales to the transport sector as well as retail sales.

The amount of the subsidy or the sales tax is capped at 58.62 sen per liter for Mogas 95 and 40.00 sen per liter for diesel. There is no limit on the sales tax or subsidy for retail LPG.

The sale of diesel in Malaysia is subject to a quota system to ensure that subsidized diesel is not sold illegally to industrial customers at higher, unregulated, prices. Accordingly, the Company is required to manage its subsidized diesel sales on a monthly basis to ensure that such sales do not exceed the amount permitted under the approved quotas. The Company has a quota to sell diesel at all of its retail service stations in Malaysia. Customers in the commercial transportation and public transport sectors are required to obtain their own quotas in order to be able to purchase diesel from the Company. The Company has also been licensed to supply distributors that are appointed by the Malaysian government to sell diesel to unbranded mini stations and to collect subsidies in respect of such sales.

The Company's quotas for subsidized diesel sales are provided and regulated by the MDTCC, which reviews the quotas on a quarterly basis. If the Company requires an increase in its approved quota during any quarter as a result of an increase in demand, it may apply to the MDTCC for a quota increase in respect of a specific month during that quarter. If the Company sells more subsidized diesel than is permitted under the approved quotas, it will not be eligible to receive a government subsidy in respect of the sales that exceed the approved quotas.

Environmental Laws

Environmental Quality Act, 1974

The Environmental Quality Act, 1974 (the "EQA") governs the prevention, abatement and control of pollution and enhancement of the environment in Malaysia and covers, among other things, oil spills and pollutants on land and in Malaysian waters. The EQA, which was introduced by the Malaysian government to promote environmentally sound and sustainable development restricts atmospheric, noise, soil and inland-water pollution without a license, prohibits the discharge of oil and waste into Malaysian waters without a license and prohibits open burning. The Department of Environment (the "MDOE") is the regulatory body with responsibility for administering the EQA and any regulations and orders made thereunder.

The MDOE will also have responsibility for monitoring the implementation of and compliance with Euro 4M standards in Malaysia, which are the Malaysian equivalent of Euro IV-standard fuels. The main change from the current Euro 2M standards to Euro 4M standards for diesel and Mogas 95 will be the reduction in sulfur content from 500 parts-per-million ("ppm") to 50 ppm, consistent with Euro IV standards. It is currently expected that Malaysian downstream oil companies will be required to comply with Euro 4M standards by 2016.

The facilities at the Port Dickson Refinery are currently being enhanced to comply with Euro 4M standards, and these enhancements are expected to be completed before Euro 4M standards come into force. The formulation of

Euro 4M specifications was carried out by SIRIM Berhad in conjunction with other interested parties, including Malaysian oil companies, the Malaysian car manufacturers' association, and regulatory bodies, such as the MDTCC and the MDOE. SIRIM Berhad is a wholly-owned company of the Malaysian government incorporated under the Malaysian Ministry of Finance.

Other Regulatory Requirements

The Company has a general duty pursuant to the Occupational Safety and Health Act, 1994 and the regulations made thereunder to (a) provide and maintain plants and systems of work that are, to the extent practicable, safe and without risks to health, (b) provide information, instruction, training and supervision to ensure, to the extent practicable, the safety and health of the Company's employees at work and (c) provide a working environment that is, to the extent practicable, safe, without risk to health and adequate with respect to facilities related to employee welfare at work. The Company also has a duty to ensure, to the extent practicable, that other persons who are not employees of the Company are not affected by, and are not exposed to risks to their safety or health by, the conduct of the Company's business. As the Company employs more than 100 employees in Malaysia, it must employ a safety and health officer, who is tasked with ensuring the due observance of statutory obligations with respect to workplace health and safety and the promotion of safe work conduct at the workplace.

MANAGEMENT

Directors

Set out below are the name, position and year of appointment of members of the Board of Directors of the Company as of the date of this offering circular.

Name	Position	Year Appointed
Ramon S. Ang	Chairman, Chief Executive Officer and Director	2009
Eric O. Recto	Vice Chairman and Director	2008
Lubin B. Nepomuceno	President and Director	2013
Eduardo M. Cojuangco, Jr	Director	2009
Estelito P. Mendoza	Director	2009
Roberto V. Ongpin	Director	2008
Bernardino R. Abes	Director	2001
Ron W. Haddock	Director	2008
Aurora T. Calderon	Director	2010
Mirzan Mahathir	Director	2010
Ma. Romela M. Bengzon	Director	2010
Virgilio S. Jacinto	Director	2010
Nelly F. Villafuerte	Director	2011
Reynaldo G. David	Independent Director	2009
Artemio V. Panganiban	Independent Director	2010

Certain information on the business and working experiences of the Directors is set out below.

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, Las Lucas Construction and Development Corporation ("LLCDC"), NVRC, and SRC; Chairman and Chief Executive Officer of PMC and PFC; Chairman and President of Mariveles Landco Corporation, PAHL, PPI and Robinson International Holdings Ltd.; Director of PFI Malaysia, POM, Petron Oil & Gas Mauritius Ltd. and Petron Oil & Gas International Sdn Bhd.; Vice Chairman, President and Chief Operating Officer of SMC; President and Chief Operating Officer of PAL Holdings, Inc. and PAL; 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 SMC in the Philippines and the Southeast Asia Region; and an Independent Director of Philweb Corporation ("Philweb").

Eric O. Recto, Filipino, 49 years old, has served as the Vice Chairman of the Company since February 19, 2013 and as a Director since July 31, 2008. He holds the following positions, among others: Chairman and Chief Executive Officer of Petron Foundation, Inc. ("PFI"); Chairman of Petrogen and Ovincor; Director of PMRMB, Petron Oil & Gas Mauritius Ltd., Petron Oil & Gas International Sdn Bhd, and PMC; Director of MERALCO and SMC; Chairman of Philippine Bank of Communications; Vice Chairman of Philweb, Atok-Big Wedge Corporation ("ATOK") and, Alphaland Corporation ("Alphaland"); 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 President of the Company (2008-2013) and as Senior Vice President and Chief Finance Officer of Alaska Milk Corporation (2000-2002) and Belle Corporation (1994-2000).

Lubin B. Nepomuceno, Filipino, 61 years old, has served as the President of the Company since February 19, 2013. He is also a member of the Company's Executive Committee and Compensation Committee. He holds the following positions, among others: President of PMC; Director of PMRMB, PFI Malaysia, POM, LLCDC, NVRC, PFC, PPI, PAHL, Mariveles Landco Corporation, Robinson International Holdings, Ltd. and Petron Singapore Trading Pte. Ltd.; Trustee of PFI; Director of San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Ltd. and Mindanao Corrugated Fibreboard Inc.; Independent Director of MNHPI and President of Archen Technologies, Inc. Mr. Nepomuceno has held various board and executive positions in the San Miguel group and was formerly the Senior Vice President and General Manager of the Company from September 2009 to February 2013.

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), Forum Energy plc (London) and PAL Holdings, Inc.; 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), Administrator and Chairman of the Philippine Social Security System (1963-1965) and Chairman of the Philippine Social Security System (2001-2004) and Philippine Government Service Insurance System (2004-2010). He also served as a Director of MERALCO, PSE, Union Bank of the Philippines, 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 interim Chief Executive Officer of AEI Services, L.L.C.; Chairman of Safety-Kleen Systems; and member of the boards of Alon Energy USA and Trinity Industries, Inc. He is also the Chairman of the governance committee for Safety-Kleen. 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 PMRMB, 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 Philippine government Honorary Trade Ambassador 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.

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) and an Associate of Sycip, Salazar, Feliciano & Hernandez Law Office (1981-1985).

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 and 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 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.; Director of Jollibee Foods Corporation; columnist for the Philippine Daily Inquirer; and officer, adviser or consultant to several business, civic, educational 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).

Senior Management

Set out below are the name, position and year of appointment of the Executive Officers and senior management of the Company as of the date of this offering circular.

Name	Position	Year Appointed
Ramon S. Ang	Chairman and Chief Executive Officer	2009
Lubin B. Nepomuceno	President	2013
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	2009
Susan Y. Yu	Vice President, Procurement	2009
Ma. Rowena O. Cortez	Vice President, Supply and Operations	2010
Freddie P. Yumang	Vice President, Refinery	2009
Albertito S. Sarte	Vice President, Treasurers and Treasurer	2009
Archie B. Gupalor	Vice President, National Sales	2012
Efren P. Gabrillo	Vice President, Controllers	2010
Joel Angelo C. Cruz	Assistant Vice President, General Counsel and Corporate Secretary/Compliance Officer	2010

Certain information on the business and working experiences of the Executive Officers is set out below:

Emmanuel E. Eraña, Filipino, 52 years old, has served as the Senior Vice President and Chief Finance Officer of the Company since September 2009. He holds the following positions, among others: President and Chief Executive Officer of Petrogen, LLCDC and NVRC; President of PFI; Deputy Chairman of Ovincor; and Director of PFC. Mr. Eraña has served as the Executive Assistant to the Chief Financial Officer, Corporate Service Unit (December 2006-January 2008), Chief Finance Officer of SMFBIL/NFL Australia (May 2005-November 2006), Chief Finance Officer of Purefoods (July 2002-May 2005), and Finance Officer (January 2001-June 2002), Finance and Management Services Officer, San Miguel Food Group (2000-2001).

Susan Y. Yu, Filipino, 36 years old, has served as the Vice President for Procurement of the Company since March 27, 2009. She is also a Trustee of PFI, Director of Ovincor, and Managing Director of PSTPL. Ms. Yu has served as the Treasurer of Petrogen, Assistant Vice President and Senior Corporate Procurement Manager of San Miguel Brewery Inc., Assistant Vice President and Senior Corporate Procurement Manager of SMC Corporate Procurement Unit (July 2003-February 2008), and Fuel Purchasing and Price Risk Management Manager of Philippine Airlines (May 1997-June 2003).

Ma. Rowena O. Cortez, Filipino, 48 years old, has served as the Vice President for Supply and Operations of the Company since July 2010. She is also a Director of LLCDC, PAHL, Robinson International Holdings Ltd., Mariveles Landco Corporation and Pandacan Depot Services Inc. The various positions she has held in the Company include Vice President for Supply (June 2009 to June 2010) and various supervisory and managerial positions in the Marketing/Sales and Supply and Operations Divisions. Ms. Cortez has handled computer training, information systems and various research works on new and renewable sources of energy for the PNOC-Energy Research and Development Center.

Freddie P. Yumang, Filipino, 55 years old, has served as the Vice President for Refinery of the Company since September 2009. He is also a Director of PPI, Mariveles Landco Corporation, Robinson International Holdings Ltd. and PAHL. The various positions he has held in the Company include Operations Manager and Technical Services Manager, and various supervisory and managerial positions at the Limay Refinery. Mr. Yumang was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007).

Albertito S. Sarte, Filipino, 46 years old, has served as the Vice President for Treasurers of the Company since September 2009, and Treasurer of the Company since August 2009. He is also the Treasurer of most of the Company's subsidiaries. Mr. Sarte has served as Assistant Vice President for SMC International Treasury (December 1999-June 2009), Senior Financial Analyst for SMC Funds Planning Department (1995 to November 1999), and as Budget Analyst for SMC Corporate Budget (1988).

Archie B. Gupalor, Filipino, 44 years old, has served as the Vice President for National Sales of the Company since March 2012. He has been with the San Miguel group since 1990. Prior to his appointment in the Company, he held the position of Vice President and General Manager of San Miguel Integrated Sales of San Miguel Foods, Inc. since 2009.

Efren P. Gabrillo, Filipino, 57 years old, has served as the Vice President for Controllers of the Company since July 2012 and as Assistant Vice President for Controllers of the Company since June 2010. He is also a Director of PSTPL and the Controller of most of the Company's subsidiaries. The various positions he has held in the Company include as Assistant Vice President for Internal Audit (September 2009-May 2010), and various supervisory and managerial positions in Accounting, Treasurers, Business Support and Services, and Materials and Services Procurement.

Joel Angelo C. Cruz, Filipino, 51 years old, has served as the Assistant Vice President of the Office of the General Counsel and Corporate Secretary and Compliance Officer of the Company since May 2010. He holds the following positions, among others: Corporate Secretary and Compliance Officer of Petrogen, LLCDC, NVRC, PMC, and PFC; Corporate Secretary of Petron Global Limited; Assistant Corporate Secretary of MNHPI; and Trustee of PFI. Mr. Cruz was formerly the Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries.

SHARE OWNERSHIP

The following table sets forth the share ownership of the Company's Directors and Executive Officers as of the date of this offering circular:

Name	Number of Common Shares
Ramon S. Ang	1,000
Eric O. Recto	1
Eduardo M. Cojuangco, Jr	1,000
Estelito P. Mendoza	1,000
Roberto V. Ongpin	1
Bernardino R. Abes	1
Ron W. Haddock	1
Aurora T. Calderon	1,000
Mirzan Mahathir	1,000
Ma. Romela M. Bengzon	1,000
Virgilio S. Jacinto	1,000
Nelly F. Villafuerte	1,000
Reynaldo G. David	1,000
Artemio V. Panganiban	1,000
Lubin B. Nepomuceno	5,000
Emmanuel E. Eraña	0
Susan Y. Yu	0
Ma. Rowena O. Cortez	8,580
Freddie P. Yumang	0
Albertito S. Sarte	0
Archie B. Gupalor	3,000
Efren P. Gabrillo	8,001
Joel Angelo C. Cruz	0

The aggregate number of common shares owned by the Company's Directors and Executive Officers as a group as of the date of this offering circular is 34,585 common shares, or approximately 0.0004% of the Company's outstanding common shares.

FAMILY RELATIONSHIPS

Mr. Eric O. Recto, the Vice Chairman and also a Director of the Company, is the nephew of Mr. Roberto V. Ongpin who is also a Director.

COMMITTEES OF THE BOARD

Pursuant to the Company's corporate governance manual, its Board created each of the following committees and appointed Board members thereto.

Audit Committee

The Audit Committee is responsible for the oversight of the Company's financial management functions. The Audit Committee reviews the Company's internal reports as well as other rules or regulations that may impact the Company's financial statements. The Audit Committee also reviews the Company's financial reports for compliance with internal financial management standards as well as applicable regulatory requirements and other relevant accounting standards. The Audit Committee is composed of five Directors, two of whom (including the committee's chairman) are required to be independent. All members of the Audit Committee are required to have adequate financial and accounting expertise. As of the date of this offering circular, the chairman of the Audit Committee is Reynaldo G. David, and its members are Estelito P. Mendoza, Aurora T. Calderon and Artemio V. Panganiban. Ferdinand K. Constantino, a former Director, serves as an advisor to the Audit Committee.

Nomination Committee

The Nomination Committee is responsible for identifying and pre-screening individuals qualified to become members of the Company's Board of Directors. The Nomination Committee is composed of three Directors. As of the date of this offering circular, the chairman of the Nomination Committee is Reynaldo G. David, and its sole other member is Estelito P. Mendoza.

Compensation Committee

The Compensation Committee is responsible for reviewing and modifying the salary structures of officers of the Company holding position of Vice President or higher. The Compensation Committee is composed of five Directors, one of whom is required to be independent. The Chairman and the President of the Company are also members but without voting rights. As of the date of this offering circular, the chairman of the Compensation Committee is Ramon S. Ang, and its members are Roberto V. Ongpin, Lubin B. Nepomuceno, Aurora T. Calderon and Reynaldo G. David. Ferdinand K. Constantino, a former Director, serves as an advisor to the Compensation Committee.

Executive Committee

The Executive Committee has been delegated the authority to exercise certain powers of the Board of Directors in the management of the business and affairs of the Company while the Board of Directors is not in session. As of the date of this offering circular, the chairman of the Executive Committee is Ramon S. Ang, and its members are Lubin B. Nepomuceno and Roberto V. Ongpin.

COMPENSATION

Standard Arrangements

The Company's Executive Officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They likewise receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services other than those provided as a Director.

Employment Contract

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one year term. Any Director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options held by Directors or Executive Officers.

PRINCIPAL SHAREHOLDERS

As of September 30, 2012, the Company had 9,375,104,497 common shares and 100,000,000 preferred shares issued and outstanding. The table below sets forth certain information with respect to beneficial ownership of the Company's common shares as of September 30, 2012 for each shareholder known by the Company to own more than 5% of the Company's common shares.

Name	**Total Common Shares**	**Percentage of the issued common share capital of the Company**
SEA Refinery Corporation	4,696,885,564	50.10%
San Miguel Corporation	1,702,870,560[1]	18.16%[1]
Petron Corporation Employees' Retirement Plan	1,581,156,097	16.87%

(1) Represents shares directly owned by SMC. Excludes common shares indirectly owned by SMC through SRC.

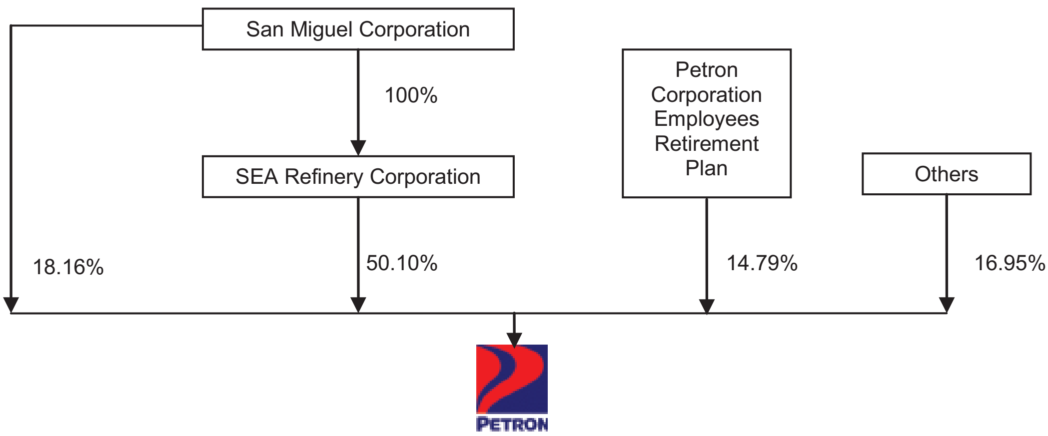
(2) PCERP sold 195,000,000, or 2.08%, of the Company's outstanding common shares to Credit Suisse (Singapore) Limited in December 2012.

SRC is a Philippine company wholly-owned by SMC. SMC is Southeast Asia's largest publicly listed food, beverage and packaging company and also has key investments in the areas of power and energy, oil refining and marketing, mining, infrastructure, telecommunications, banking and the airline industry.

PCERP is a tax qualified and fully funded defined pension plan covering all permanent, regular and full-time employees of the Company. It is administered by its board of trustees. Certain members of the Company's management are also trustees of PCERP.

Currently, SMC directly owns 1,702,870,560 common shares representing 18.16% of the Company's total issued common share capital. As mentioned above, SMC also owns 100% of SRC. Therefore, the total number of common shares beneficially owned, directly and indirectly, by SMC is 6,399,756,124 common shares, representing 68.26% of the Company's total issued common share capital.

The chart below sets forth the ownership structure of the Company's common shares as of the date of this offering circular.



RELATED PARTY TRANSACTIONS

The Company engages from time to time in a variety of transactions with related parties. The Company's policy with respect to related party transactions is to ensure that these transactions are entered into terms comparable to those available from unrelated third parties. For more information regarding the Company's transactions with related parties, see note 3 to the Company's unaudited condensed consolidated interim financial statements as of and for the period ended September 30, 2012 included elsewhere in this offering circular.

Petron Corporation Employees' Retirement Plan

In July 2010, PCERP acquired from SEA BV 24.28% of the common shares in the Company. A significant portion of the ₱ 20.8 billion advance from the Company to PCERP was used to fund the purchase. The advance bears interest at market rates.

In January 2012, PCERP sold common shares representing 7.42% of the common shares in the Company to various foreign institutional investors by way of a secondary offering. The proceeds of the sale were used partially to repay advances made by the Company in 2010.

In December 2012, PCERP further sold common shares representing 2.08% of the common shares in the Company to Credit Suisse (Singapore) Limited.

San Miguel Corporation

SMC is a major stockholder of the Company. See "Principal Shareholders." The Company has supply contracts with SMC and some of its subsidiaries and an associate, under which the Company supplies the bunker fuel oil, diesel fuel and lubricant requirements of certain SMC plants, subsidiaries and an associate. Generally, the pricing formulae under these contracts are based on Mean of Platts Singapore. Aggregate sales amounted to approximately ₱ 3.3 billion and ₱ 3.1 billion for the nine months ended September 30, 2012 and September 30, 2011, respectively. The Company also currently leases office space from SMC pursuant to a lease agreement that was entered into on an arm's length basis.

Saudi Aramco

The Company has a term contract to purchase up to 140 MBCD of various Saudi Aramco crudes from Saudi Aramco. Saudi Aramco, the state-owned national oil company of Saudi Arabia, is the ultimate parent company of AOC, the Company's major stockholder until July 2008. The contract is renewable every year unless terminated by either the Company or Saudi Aramco upon at least 60 days' written notice prior to its expiration date. The contract was most recently extended on October 28, 2012, and, as of the date of this offering circular, neither the Company nor Saudi Aramco has given notice of non-renewal.

Philippine National Oil Company

PNOC, the state-owned national oil company of the Philippines, was a major stockholder of the Company until December 2008, when it sold its equity interest to the Ashmore group. The Company, through NVRC, entered into a 30 year lease agreement with PNOC covering a period from January 1, 2010 to December 31, 2039 on certain lots where the Company's Limay Refinery and other facilities are located. The lease is renewable upon agreement of the parties for a further 25 years. The annual rental under this lease is ₱ 93 million, payable on January 15 each year. The leased premises were reappraised in 2012 and will be reappraised every fifth year thereafter, and following such a reappraisal the rental rate shall be revised to the equivalent of 5% of the reappraised value, subject to annual escalation of 3% in each the four years following such a reappraisal. The reappraisal of the leased premises for 2012 is ongoing. Lease expenses in connection with the PNOC leases in 2009, 2010 and 2011 were approximately ₱ 140.4 million, ₱ 155.7 million and ₱ 160.0 million, respectively.

New Ventures Realty Corporation

NVRC is a subsidiary of the Company 40%-owned by the Company and 60%-owned by a trustee bank of PCERP. The Company leases from NVRC certain parcels of land where the Limay Refinery and its service station sites, terminals and bulk plants are located. NVRC is also the holder of the lease over the site of the Limay Refinery of which PNOC is the lessor, as described above. Lease expenses in connection with the NVRC leases in 2009, 2010 and 2011 amounted to approximately ₱ 134.1 million, ₱ 118.5 million and ₱ 172.4 million, respectively.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this offering circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of New Securities are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of Securities.

Philippine Taxation

As used in this section, the term "resident alien" means an individual whose residence is within the Philippines and who is not a citizen of the Philippines and a "non-resident alien" means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a "non-resident alien not engaged in trade or business within the Philippines." A "resident foreign corporation" is a foreign corporation engaged in business within the Philippines and a "non-resident foreign corporation" is a foreign corporation not engaged in business within the Philippines.

The characterization of the Securities and Distributions for tax purposes is not settled under Philippine tax laws and regulations. Subject to definitive law or regulation or a specific ruling issued by Philippine tax authority in respect of the Securities, the Securities and the Distributions may be treated as dividends or interest for tax purposes. Interest on debt instruments or interest-bearing obligations of residents (corporate or otherwise), and the amount received as dividend from domestic corporations, are generally considered as income derived from a source within the Philippines. Since the Company is a Philippine resident or a domestic corporation, receipt by Securityholders of Distributions will be treated as income derived from a source within the Philippines and will generally be subject to Philippine withholding tax.

Documentary Stamp Tax

Under the National Internal Revenue Code of 1997 as amended (the "Tax Code"), certain documents, instruments, papers, acceptances, assignments, sales and transfers of obligations, rights or property may be subject to documentary stamp tax. Documentary stamp tax will be levied, collected and paid for by the person making, signing, issuing, accepting or transferring the document wherever the document is made, signed, issued, accepted or transferred when the relevant obligation or right arises from a Philippine source or the relevant property is situated in the Philippines.

The Tax Code imposes documentary stamp tax on all original issuances of shares of stock or debt instruments at a uniform rate of ₱ 1.00 for each ₱ 200, or fractional part thereof, of the par value of such shares of stock or actual consideration for the issuance of the shares (in the case of no par value shares) or the issue price of such debt instruments, as the case may be. The original issuance of the Securities (whether treated as shares of stock or debt instruments) will therefore be subject to documentary stamp tax at this rate based on the issue price of the Securities. The documentary stamp tax due on the original issuance of the Securities will be for the account of the Company.

Transfers of shares of stock by assignment in blank, delivery, or by any paper, agreement or memorandum or other evidence of transfer or sale (including to secure the future payment of money or for the future transfer of stock) is subject to documentary stamp tax at the rate of ₱ 0.75 for each ₱ 200, or fractional part thereof, of the par value of such shares of stock, or at an amount equivalent to 25% of the documentary stamp tax paid upon the issuance of the shares in the case of no par value shares. Accordingly, subsequent transfers or dispositions of Securities, if treated as shares of stock for tax purposes, will be subject to documentary stamp tax at these rates.

No documentary stamp tax is generally payable on the subsequent transfer or disposition of debt instruments, provided that the transfer or disposition does not constitute a renewal or entail a change in the maturity date of the relevant instrument. Accordingly, if the Securities are treated as debt instruments, no documentary stamp tax will generally be imposed on their subsequent transfer or disposition, provided that any such transfer or disposition meets the foregoing requirements.

Distributions on the Securities

Distributions that are characterized as dividends for Philippine tax purposes will be subject to final withholding tax at the rate of (i) 10% if the Securityholder is a Philippine citizen or resident alien or (ii) 20% if the Securityholder is a non-resident alien engaged in trade or business within the Philippines. A non-resident alien not engaged in trade or business within the Philippines is subject to final withholding tax at the rate of 25% regardless of whether the Distributions are characterized as dividends or interest or other fixed or determinable periodic or casual gains or profits. A non-resident foreign corporation is generally taxable on all gross income received from all sources within the Philippines at the rate of 30%; however, if Distributions received by non-resident foreign corporations are regarded as taking the form of dividends for Philippine tax purposes, they may be subject to final withholding tax at the rate of 15%, provided that the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign-sourced dividends or allows a credit against the tax due from the non-resident foreign corporation, in which case taxes are deemed to have been paid in the Philippines equivalent to 15%, representing the difference between the regular income tax rate of 30% and the 15% tax rate on dividends. Distributions received by domestic corporations and resident foreign corporations that are regarded as taking the form of dividends for Philippine tax purposes are not subject to Philippine tax.

On the other hand, the tax treatment of interest generally depends on the type of instrument from which the interest arises and whether the class of taxpayer receiving the interest is a resident or a non-resident for Philippine tax purposes. Interest on debt instruments arising from borrowing from the public (which for this purpose means more than nineteen lenders), long-term deposits or investment certificates, currency bank deposits, trust funds and similar instruments is generally subject to a 20% final withholding tax if received by Philippine citizens, resident aliens, non-resident aliens engaged in trade or business within the Philippines, domestic corporations and resident foreign corporations (all of which may generally be considered as "residents" in respect of taxation of Philippine-sourced income). Interest on debt instruments not covered by the foregoing instruments received by the same categories of residents will form part of their taxable income and will be subject to ordinary income tax rates (at graduated rates from 5% – 32% for individuals and 30% for domestic and resident foreign corporations), subject to the withholding by the issuer of an amount equivalent to 20% of such interest, which shall be creditable against the income tax liability of the resident for the relevant taxable year.

Interest on debt instruments received by non-residents will generally be subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 20%, if the holder is a non-resident foreign corporation on the assumption that the debt instrument is a "foreign loan" granted by such non-resident foreign corporation. "Foreign loans" are defined as loan contracts, including all types of debt instrument, whether in kind or in cash, which are payable in a currency other than the Philippine Peso, entered into by a Philippine resident, corporate or otherwise, with a non-resident. Distributions will be taxed in the manner and at the rate described above if they are characterized as interest. The tax withheld constitutes a final settlement of Philippine tax liability in respect of such interest or dividend income earned by the non-resident individual not engaged in trade or business within the Philippines or by the non-resident foreign corporation. For the purpose of implementing these rules, the Company will determine the holder of the Securities based on the records of the Registrar.

The Company, as required by the Tax Code, will withhold and make payment of the applicable withholding tax described above. However, the Company shall pay Additional Amounts as may be necessary and subject to certain exceptions, so that the net amount received by Securityholders equals the amounts which would otherwise have been receivable by them had no such deduction or withholding been required. See "Terms and Conditions of the Securities—Taxation and Gross-up."

The abovementioned tax rates are without prejudice to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of the non-resident holder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest or dividend arises in the Philippines and is paid to a resident of the other contracting state. In addition, some treaties provide that the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonded indebtedness or in the case of a dividend, where the recipient of the dividend beneficially owns at least 10% or 25% of the issuer, depending on which treaty applies. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest or dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing or dividend-earning interest is effectively connected with such permanent establishment.

The Philippine tax authorities have prescribed certain procedures for availment of tax treaty relief. Subject to the filing of an application for tax treaty relief and its approval by Philippine tax authorities, the Company will withhold at a reduced rate on any interest or dividend paid to a non-resident holder, provided that such holder furnishes the Company with proof of the duly completed application filed with Philippine tax authorities for the aforesaid tax treaty relief. If the regular rate of tax imposed pursuant to the Tax Code on interest or dividends is withheld by the Company, instead of the reduced rate applicable under a treaty, the non-resident holder may file a claim for a refund from the Philippine taxing authorities on the basis of an applicable tax treaty. However, because the refund process in the Philippines could be cumbersome, requiring the filing of an administrative claim and the possible filing of a judicial appeal, it may be impractical to pursue such a refund.

Sale or Other Disposition of the Securities

A holder of a Security will recognize a gain or loss upon the sale or other disposition (including a redemption at maturity or otherwise) of the Securities in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Securities.

Under the Tax Code, gains from the sale, barter, exchange or other disposition of shares of stock held in domestic corporations that are not traded through the local stock exchange are generally considered as capital gains and subject to tax at the rate of 5% (for gains not over ₱ 100,000) and 10% (for gains in excess of ₱ 100,000). This rate applies to capital gains realized by Philippine citizens, resident aliens, non-resident aliens (whether or not engaged in trade or business within the Philippines), domestic corporations, resident foreign corporations and non-resident foreign corporations. Accordingly, if the Securities are regarded as "shares of stock" for Philippine tax purposes, capital gains tax will be payable on the sale or disposition of the Securities. Gains from the sale of shares of stock in a domestic corporation are treated as derived entirely from a source within the Philippines, regardless of where the shares are sold.

Under Section 32(B)(7)(g) of the Tax Code, gains realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years as measured from the date of the issuance of such bonds, debentures or other certificate of indebtedness ("Long-Term Bonds") are exempt from income tax. Accordingly, if the Securities are regarded as Long-Term Bonds for Philippine tax purposes, gains realized from the sale or transfer of the Securities will be exempt from Philippine income tax.

If the Securities are not regarded as Long-Term Bonds for Philippine tax purposes, the tax treatment of gains from the sale or transfer of the Securities will generally depend on whether the relevant Securityholder is a resident or a non-resident for Philippine tax purposes. Any gain realized by residents from the sale or transfer of debt instruments forms part of their taxable income and is subject to ordinary income tax rates (at graduated rates from 5%-32% for individuals and 30% for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of debt instruments are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 30%, if the holder is a non-resident foreign corporation.

Value-Added Tax

The transfer of the Securities in the Philippines by dealers in securities will be subject to value-added tax at the rate of 12% on the gross income they derive from the sale or exchange of the Securities.

Estate and Donor's Tax

Securities issued by a corporation organized or constituted in the Philippines in accordance with Philippine laws are deemed to have a Philippine situs and their transfer by way of succession or donation is subject to Philippine estate and gift taxes.

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Securities shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱ 200,000. A Securityholder shall be subject to donor's tax based on the net gift on the transfer of the Securities by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱ 100,000 and where the donee or beneficiary is not a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor or lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Securities, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Securities are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Securities exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the beneficial owner of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The rate of withholding is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Security were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Company nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Security as a result of the imposition of such withholding tax. The Company is, however, required to maintain, if the Securities are issued in definitive form, a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any such law.

CLEARANCE AND SETTLEMENT OF THE NEW SECURITIES

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Company believes to be reliable, but neither the Company nor any Manager takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the New Securities held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the New Securities and transfers of the New Securities associated with secondary market trading.

THE CLEARING SYSTEMS

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the New Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant institution's rules and procedures.

Registration and Form

Book-entry interests in the New Securities held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of nominee of the common depositary of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in the New Securities will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the New Securities in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the New Securities, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the New Securities. The Registrar will be responsible for maintaining a record of the aggregate holdings of New Securities registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg and/or, if individual Certificates are issued in the limited circumstances described under "The Global Certificate—Registration of Title", holders of New Securities represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Company for holders of interests in the New Securities holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect to the New Securities; however, holders of book-entry interests in the New Securities may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

CLEARANCE AND SETTLEMENT PROCEDURES

Initial Settlement

Upon their original issue, the New Securities will be in global form represented by the Global Certificate. Interests in the New Securities will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the New Securities through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the New Securities will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Secondary market sales of book-entry interests in the New Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the New Securities through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

GENERAL

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the New Securities among participants of Euroclear and Clearstream, Luxembourg, none of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

Neither the Company nor any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

GENERAL

The Joint Lead Managers have agreed, pursuant to a Subscription Agreement dated March 6, 2013 (the "Subscription Agreement") between the Company and the Joint Lead Managers and subject to the satisfaction of certain conditions, to procure subscriptions and payment for the aggregate principal amount of the New Securities. In addition, the Company has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the New Securities.

The Subscription Agreement provides that the Company will indemnify the Joint Lead Managers against certain liabilities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Company.

The Joint Lead Managers and their affiliates have performed and may perform in the future various financial advisory, investment banking and commercial banking services for the Company and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Company, and/or its affiliates in the ordinary course of their business.

The Joint Lead Managers or certain of their affiliates may purchase the New Securities and be allocated such New Securities for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers may pay commissions to certain third parties (including, without limitation, rebates to private banks.)

The Joint Lead Managers or certain of their affiliates may purchase the New Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the New Securities and/or other securities of the Company or its subsidiaries or associates at the same time as the offer and sale of the New Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the New Securities to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the New Securities).

The distribution of this offering circular or any offering material and the offering, sale or delivery of the New Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this offering circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This offering circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

OFFERING AND SELLING RESTRICTIONS

None of the Company or the Joint Lead Managers makes any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Company that would permit a public offering of the New Securities, or possession or distribution of this offering circular (in preliminary, proof or final form) or any other offering or publicity material relating to the New Securities, in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers New Securities or has in its possession or distributes this offering circular (in preliminary, proof or final form) or any such other material, in all cases at its own expense. The Joint Lead Managers will also ensure that no obligations are imposed on the Company in any such jurisdiction as a result of any of the foregoing actions. The Company will have no responsibility for, and the Joint Lead Managers will not obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of New Securities under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Joint Lead Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the New Securities other than as contained in, or which is consistent with, the offering circular or any amendment or supplement to it.

United States of America

The New Securities are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S. The New Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, until 40 days after the commencement of the offering of the New Securities, an offer or sale of such New Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented, warranted and agreed that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any New Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Securities in, from or otherwise involving the United Kingdom.

Singapore

Each of the Joint Lead Managers has acknowledged that this offering circular has not been registered as a prospectus with the Monetary Authority of Singapore, and the New Securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Each Joint Lead Manager has represented and agreed that it has not offered or sold any New Securities or caused the New Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any New Securities or cause the New Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the offering circular or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any New Securities, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased New Securities, namely a person who is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, should note that securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (however described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the New Securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) pursuant to Section 276(7) of the Securities and Futures Act.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any New Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being an "offering circular" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the New Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The New Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "FIEA") and each Joint Lead Manager has represented and agreed that it will not offer or sell any New Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of New Securities which are the subject of the offering contemplated by this offering circular to the public in that Relevant Member State other than:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Securities shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

(1) the expression "an offer of New Securities to the public" in relation to any New Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Securities to be offered so as to enable an investor to decide to purchase or subscribe the New Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;

(2) the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and

(3) the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Philippines

Under Republic Act No. 8799, known as the Securities Regulation Code (the "Code"), and its implementing rules, securities, such as the New Securities, are not permitted to be sold or offered for sale or distribution within the Philippines unless such securities are approved for registration by the SEC or are otherwise exempt securities under Section 9 of the Code or sold pursuant to an exempt transaction under Section 10 of the Code.

The New Securities are being offered in the Philippines to not more than nineteen (19) non-qualified buyers and to any number of qualified buyers as defined in the Code. The offer and sale of the New Securities qualify as an exempt transaction pursuant to sections 10.1 (k) and 10.1(l) of the Code. A confirmation of exemption from the SEC that the offer and sale of the New Securities in the Philippines qualify as an exempt transaction under the Code is not required to be, and has not been, obtained. Nevertheless, in compliance with applicable regulations, a Notice of Exemption is required to be filed, and will be filed, after the issuance of the New Securities.

THE NEW SECURITIES BEING OFFERED OR SOLD HAVE NOT BEEN REGISTERED WITH THE SEC UNDER THE CODE, ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

LEGAL MATTERS

Certain legal matters as to Philippine law will be passed upon for the Company by Picazo Buyco Tan Fider & Santos and for the Joint Lead Managers by SyCip Salazar Hernandez & Gatmaitan. Cleary Gottlieb Steen & Hamilton LLP is acting as special counsel to the Company in connection with this offering with respect to certain matters of English law and U.S. federal law. Certain legal matters as to English law and U.S. federal law will be passed upon for the Joint Lead Managers by Allen & Overy.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Company prepared in accordance with PFRS for the year ended December 31, 2009, included in this offering circular have been audited by Punongbayan & Araullo, a member firm within Grant Thornton International Ltd., independent certified public accountants, as indicated in their report with respect thereto.

The audited consolidated financial statements of the Company prepared in accordance with PFRS as of and for the years ended December 31, 2010 and 2011, included in this offering circular have been audited by Manabat Sanagustin & Co., a member firm of KPMG, as indicated in their report with respect thereto included herein.

The unaudited condensed consolidated interim financial statements of the Company as of and for the periods ended September 30, 2011 and 2012, included in this offering circular have been reviewed by Manabat Sanagustin & Co., a member firm of KPMG, as indicated in their report with respect thereto included herein.

(1) The Company was incorporated under the laws of the Philippines in 1966. The Company's registered office is located at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines.

(2) Copies of the Company's articles of incorporation, the annual reports of the Company for the years ended December 31, 2009, 2010 and 2011, and copies of the Original Trust Deed, the First Supplemental Trust Deed, the Original Agency Agreement and the First Supplemental Agency Agreement will be available for inspection by any Securityholder during usual business hours at the specified office of the Company at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Philippines, so long as any of the Securities is outstanding. Copies of the Original Trust Deed, the First Supplemental Trust Deed, the Original Agency Agreement and the First Supplemental Agency Agreement will be available for inspection with reasonable prior notification during normal business hours by the Securityholders at the specified office of the Trustee and the Agents.

(3) The New Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg together with the Original Securities under Common Code number 087984931. The International Securities Identification Number for the Securities is XS0879849312.

(4) Where necessary, the Company has obtained all consents, approvals and authorizations in connection with the issue and performance of its obligations under the New Securities.

(5) Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the New Securities by way of debt issues to professional investors only. It is expected that dealings will commence on or about March 12, 2013.

(6) Except as disclosed in this offering circular, there has been no significant change in the financial or trading position of the Company since December 31, 2011 and no material adverse change in the financial position or trading position of the Company since September 30, 2012.

(7) Except as disclosed in this offering circular, the Company is not involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this offering circular, a significant adverse effect on the financial position or trading position of the Company nor is the Company aware that any such proceedings are pending or threatened.

(8) The Trustee may rely without liability to the Securityholders on any certificate prepared by the officers of the Company and accompanied by a certificate or report prepared by an internationally recognized firm of accountants pursuant to the Terms and Conditions of the Securities and/or the Trust Deed whether or not addressed to the Trustee, and whether or not the internationally recognized firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions of the Securities. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Securityholders.

GLOSSARY

TERM	DEFINITION
AGL	Actuarial gains and losses
AOC	Aramco Overseas Company B.V.
APM	Malaysian automatic pricing mechanism
bbl	Barrel
BIR	Bureau of Internal Revenue
Black Products	Fuel oil and asphalts
bnbbl	Billion barrels
bpd	Barrels per day
BSP	Bangko Sentral ng Pilipinas
CA	Philippine Court of Appeals
CBAs	Collective bargaining agreements
CFBs	Circulating fluidized boilers
Chevron	Chevron Philippines, Inc.
Clearing System	Euroclear and Clearstream, Luxembourg
Clearstream, Luxembourg	Clearstream Banking, société anonyme
COCO	Company-owned-company-operated service stations
Code	Philippine Securities Regulation Code
CODO	Company-owned-dealer-operated service stations
Company	Petron Corporation
Concord Energy	Concord Energy Pte Ltd
CSA	Malaysian Control of Supplies Act, 1961
CTA	Philippine Court of Tax Appeals
CTESG	Corporate Technical and Engineering Services Group

TERM	DEFINITION
DENR	Philippine Department of Environment and Natural Resources
DODO	Dealer-owned-dealer-operated service stations
DOE	Philippine Department of Energy
DOJ	Philippine Department of Justice
DTI	Philippine Department of Trade and Industry
ECC	Environmental Compliance Certificate
EIS	Environment Impact Statement
EMB	Environmental Management Bureau
EMS	Environmental Management System
Enforcement Act	Malaysian Reciprocal Enforcement of Judgments Act 1958 (Revised 1972)
EPF	Malaysian employees' provident fund
EPIRA	Philippine Electric Power Industry Reform Act of 2001
EQA	Malaysian Environmental Quality Act, 1974
Euroclear	Euroclear Bank SA/NV
FIA	Philippine Foreign Investment Act of 1991
GDP	Gross domestic product
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
IMS	Integrated Management System
Innospec	Innospec, Limited
ISO	International Organization for Standardization
Joint Lead Managers	Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and UBS AG, Hong Kong Branch
kbd	Thousand barrels per day
ktoe	Thousand tons of oil equivalent

TERM	DEFINITION
KLIA	Kuala Lumpur International Airport
LGC	Philippine Local Government Code
LGU	Local Government Unit
Limay Energen	Limay Energen Corporation
Limay Refinery	The Company's refinery in Limay, Bataan, Philippines
LPG	Liquefied petroleum gas
LPS	Loss prevention system
LSFO	Low-sulfur fuel oil
LSWR	Low-sulfur waxy residue
MARINA	Philippine Maritime Industry Authority
MBCD	Thousand barrels per calendar day
mbd	Million barrels per day
MBIA	Malaysian Biofuel Industry Act, 2007
MDOE	Malaysian Department of Environment
MDTCC	Malaysian Ministry of Domestic Trade, Cooperative and Consumerism
Mean of Platts Singapore	The daily average of all trading transactions between a buyer and a seller of petroleum products as assessed and summarized by Standard and Poor's Platts, a Singapore-based market wire service
MERALCO	Manila Electric Company
MITI	Malaysian Ministry of International Trade and Industry
MNHPI	Manila North Harbour Port, Inc.
Mogas 95	Formulated unleaded gasoline fuel with an octane index of 95
MPP	Multi-product pipeline
MSOSH	Malaysian Society for Occupational Safety and Health
MT	Metric tonnes

TERM	DEFINITION
MTH	Metric tonnes per hour
MW	Megawatts
NAPOCOR	National Power Corporation
NVRC	New Ventures Realty Corporation
OECD	Organization for Economic Co-operation and Development
Oil Deregulation Law	Philippine Downstream Oil Industry Deregulation Act of 1998
Ovincor	Overseas Ventures Insurance Corporation Ltd.
PAHL	Petrochemical Asia (HK) Ltd.
PAL	Philippine Airlines, Inc.
PANASIA	PanAsia Energy Holdings Incorporated
PCERP	Petron Corporation Employees' Retirement Plan
PDA	Malaysian Petroleum Development Act, 1974
PDB	Petronas Dagangan Berhad
PDS	Philippine Dealing System
PetroFCC	Petrofluidized catalytic cracking
Petrogen	Petrogen Insurance Corporation
Petronas	Petroliam Nasional Berhad
Petrophil	Petrophil Corporation
PFC	Petron Freeport Corporation
PFI Malaysia	Petron Fuel International Sdn. Bhd.
PFRS	Philippine Financial Reporting Standards
Philippines	The Republic of the Philippines
Philippine Peso, Peso, ₱ or PHP	Philippine Pesos, the legal currency of the Philippines
PIP	Profitability Improvement Program

TERM	DEFINITION
PMC	Petron Marketing Corporation
PMRMB	Petron Malaysia Refining & Marketing Berhad
PNOC	Philippine National Oil Company
POM	Petron Oil (M) Sdn. Bhd.
POME	Palm oil methyl ester
Port Dickson Refinery	The Company's refinery in Port Dickson, Malaysia
POS	Point of sale
PPI	Philippine Polypropylene Inc.
PSALM	Power Sector Assets and Liabilities Management Corporation
PSE	Philippine Stock Exchange, Inc.
PSMA	Malaysian Petroleum (Safety Measures) Act, 1984
Purefoods	San Miguel Pure Foods Company, Inc.
R.A. 8762	Philippine Retail Trade Liberalization Act of 2000
RAM	Reliability Availability Maintenance
Ringgit Malaysia, Ringgit, RM or sen	Ringgit Malaysia, the legal currency of Malaysia
RMP-2	Phase 2 of the Refinery Master Plan
RTC	Regional Trial Court
Saudi Aramco	Saudi Arabian Oil Company
Saudi CP	Saudi Aramco contract prices
SBM	Single buoy mooring
SBMI	Special Board of Marine Inquiry
SC	Supreme Court of the Philippines
SEA BV	SEA Refinery Holdings B.V.
SEC	Philippine Securities and Exchange Commission

TERM	DEFINITION
Shell	Pilipinas Shell Petroleum Corporation
Shell Malaysia	Shell Malaysia Trading Sdn Bhd
SJS	Social Justice Society
SMC	San Miguel Corporation
SMS	Safety management system
SRC	SEA Refinery Corporation
SSHE	Safety, security, health and the environment
Tax Code	Philippine National Internal Revenue Code of 1997
TCCs	Tax Credit Certificates
U.S. dollars or US$	U.S. Dollars, the legal currency of the United States of America
U.S.	United States of America or USA
VAT	Value-Added Tax
White Products	Diesel, gasoline, jet fuel, kerosene and LPG

INDEX TO FINANCIAL STATEMENTS

Unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2012 and 2011

Audited consolidated financial statements for the years ended December 31, 2011, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors and Stockholders
Petron Corporation and Subsidiaries

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Petron Corporation and Subsidiaries, which comprise the condensed consolidated interim statement of financial position as at September 30, 2012, and the condensed consolidated interim statements of income, condensed consolidated interim statements of comprehensive income, condensed consolidated interim statements of changes in equity and condensed consolidated interim statements of cash flows for the nine months ended September 30, 2012 and 2011, and selected notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with PAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at September 30, 2012 and for the nine months ended September 30, 2012 and 2011 are not prepared, in all material respects, in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*.

Other Matter

The 2011 consolidated financial statements (not presented herein) from which the accompanying consolidated statement of financial position as at December 31, 2011 was derived, were audited by us, for which we expressed an unqualified opinion in our report thereon dated March 7, 2012.

MANABAT SANAGUSTIN & CO., CPAs

/s/ ADOR C. MEJIA
ADOR C. MEJIA
Partner
CPA License No. 0029620
SEC Accreditation No. 0464-AR-1, Group A, Valid until March 17, 2013
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

January 16, 2013
Makati City, Metro Manila

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

	Note	Unaudited September 30, 2012	Audited December 31, 2011
ASSETS			
Current Assets			
Cash and cash equivalents		**₱ 21,627**	₱ 23,823
Financial assets at fair value through profit or loss		**158**	237
Trade and other receivables — net		**43,972**	26,605
Inventories		**60,974**	37,763
Other current assets		**11,807**	8,178
		138,538	96,606
Assets held for sale		**10**	10
Total Current Assets		**138,548**	96,616
Noncurrent Assets			
Available-for-sale financial assets		**927**	1,036
Investments in associates		**1,155**	2,505
Property, plant and equipment — net	*7*	**84,611**	50,446
Investment property — net		**726**	794
Deferred tax assets		**49**	15
Goodwill	*6*	**10,429**	—
Other noncurrent assets — net		**19,000**	24,383
Total Noncurrent Assets		**116,897**	79,179
		₱255,445	₱175,795
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*10*	**₱ 74,293**	₱ 40,593
Liabilities for crude oil and petroleum product importation	*14*	**44,435**	13,842
Trade and other payables		**10,142**	7,381
Derivative liabilities		**81**	55
Income tax payable		**72**	78
Current portion of long-term debt — net	*10*	**73**	4,124
Total Current Liabilities		**129,096**	66,073
Noncurrent Liabilities			
Long-term debt — net of current portion	*10*	**45,255**	45,744
Retirement benefits liability		**1,473**	671
Deferred tax liabilities		**2,691**	1,819
Asset retirement obligation		**1,078**	1,061
Other noncurrent liabilities		**656**	740
Total Noncurrent Liabilities		**51,153**	50,035
Total Liabilities		**180,249**	116,108
Equity Attributable to Equity Holders of the Parent Company			
Capital stock		**9,475**	9,475
Additional paid-in capital		**9,764**	9,764
Retained earnings	*12*	**39,084**	40,088
Other reserves		**(190)**	70
Total Equity Attributable to Equity Holders of the Parent Company		**58,133**	59,397
Non-controlling interests		**17,063**	290
Total Equity		**75,196**	59,687
		₱255,445	₱175,795

See Notes to the Condensed Consolidated Interim Financial Statements.

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

	Note	For the Nine Months Ended September 30, 2012	September 30, 2011
SALES	5	**₱307,341**	₱201,929
COST OF GOODS SOLD		**293,895**	183,638
GROSS PROFIT		**13,446**	18,291
SELLING AND ADMINISTRATIVE EXPENSES		**(6,906)**	(4,856)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(5,760)**	(3,879)
INTEREST INCOME		**873**	1,007
SHARE IN NET LOSSES OF ASSOCIATES		**(4)**	(169)
OTHER EXPENSES — Net		**(539)**	(281)
		(12,336)	(8,178)
INCOME BEFORE INCOME TAX		**1,110**	10,113
INCOME TAX EXPENSE		**178**	2,513
NET INCOME		**₱ 932**	₱ 7,600
Attributable to:			
Equity holders of the Parent Company	11	**₱ 886**	₱ 7,581
Non-controlling interests		**46**	19
		₱ 932	₱ 7,600
BASIC/DILUTED EARNINGS (LOSS) PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	11	**₱ (0.01)**	₱ 0.73

See Notes to the Condensed Consolidated Interim Financial Statements.

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

	For the Nine Months Ended	
	September 30, 2012	**September 30, 2011**
NET INCOME FOR THE PERIOD	**₱ 932**	₱7,600
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized fair value gain on available-for-sale financial assets, net of tax	**12**	—
Exchange differences on translation of foreign operations	**(782)**	(7)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD — NET OF TAX	**(770)**	(7)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**₱ 162**	₱7,593
Attributable to:		
Equity holders of the Parent Company	**₱ 626**	₱7,573
Non-controlling interests	**(464)**	20
	₱ 162	₱7,593

See Notes to the Condensed Consolidated Interim Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
(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 Interest	Total Equity
As at December 31, 2011 (Audited)		**₱9,475**	**₱9,764**	**₱25,171**	**₱14,917**	**₱ 70**	**₱59,397**	**₱ 290**	**₱59,687**
Unrealized fair value gain on available-for-sale financial assets, net of tax		**—**	**—**	**—**	**—**	**12**	**12**	**—**	**12**
Exchange differences on translation of foreign operations		**—**	**—**	**—**	**—**	**(272)**	**(272)**	**(510)**	**(782)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**(260)**	**(260)**	**(510)**	**(770)**
Net income for the period		**—**	**—**	**—**	**886**		**886**	**46**	**932**
Total comprehensive income (loss) for the period		**—**	**—**	**—**	**886**	**(260)**	**626**	**(464)**	**162**
Cash dividends	*12*	**—**	**—**	**—**	**(1,890)**	**—**	**(1,890)**	**—**	**(1,890)**
Net additions to non-controlling interests and others		**—**	**—**	**—**	**—**	**—**	**—**	**17,237**	**17,237**
		—	**—**	**—**	**(1,004)**	**(260)**	**(1,264)**	**16,773**	**15,509**
As at September 30, 2012 (Unaudited)		**₱9,475**	**₱9,764**	**₱25,171**	**₱13,913**	**₱(190)**	**₱58,133**	**₱17,063**	**₱75,196**
As at December 31, 2010 (Audited)		₱9,475	₱9,764	₱15,543	₱18,205	₱ 83	₱53,070	₱ 274	₱53,344
Exchange differences on translation of foreign operations		—	—	—	—	(7)	(7)		(7)
Net income for the period		—	—	—	7,581		7,581	19	7,600
Total comprehensive income (loss) for the period		—	—	—	7,581	(7)	7,574	19	7,593
Appropriation for capital projects		—	—	9,638	(9,638)	—	—	—	—
Cash dividends		—	—	—	(1,652)	—	(1,652)	—	(1,652)
				9,638	(3,709)	(7)	5,922	19	5,941
As at September 30, 2011 (Unaudited)		₱9,475	₱9,764	₱25,181	₱14,496	₱ 76	₱58,992	₱ 293	₱59,285

See Notes to the Condensed Consolidated Interim Financial Statements.

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

		For the Nine Months Ended	
	Note	September 30, 2012	September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**₱ 1,110**	₱ 10,113
Adjustments for:			
Share in net losses of associates		**4**	169
Interest expense and other financing charges		**5,760**	3,879
Depreciation and amortization		**3,628**	2,705
Interest income		**(873)**	(1,007)
Unrealized foreign exchange losses (gains) — net		**(488)**	171
Other gain		**(561)**	(69)
Operating income before working capital changes		**8,580**	15,961
Changes in noncash assets, certain current liabilities and others		**(409)**	(13,167)
Interest paid		**(5,085)**	(3,953)
Income taxes paid		**(603)**	(520)
Interest received		**932**	1,038
Net cash flows provided by (used in) operating activities		**3,415**	(641)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to (including disposals):			
Property, plant and equipment	*7*	**(22,407)**	(10,635)
Investment property		**—**	(698)
Decrease (increase) in:			
Other receivables		**(3,761)**	(329)
Other noncurrent assets		**12,161**	316
Reductions from (additions to):			
Financial assets at fair value through profit or loss		**29**	(104)
Long-term investments and advances		**(15)**	(1,734)
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**(19,090)**	—
Available-for-sale financial assets		**109**	127
Net cash flows used in investing activities		**(32,974)**	(13,057)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans		**233,786**	55,031
Payments of:			
Cash dividends		**(2,205)**	(1,640)
Loans		**(218,229)**	(63,445)
Proceeds from issuance of a subsidiary's preferred stock to non-controlling interest		**14,216**	—
Increase (decrease) in other noncurrent liabilities		**(117)**	107
Net cash flows provided by (used in) financing activities		**27,451**	(9,947)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(88)**	60
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,196)**	(23,585)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**23,823**	43,984
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**₱ 21,627**	₱ 20,399

See Notes to the Condensed Consolidated Interim Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Amounts in Million Pesos, Except Par Value, Number of Shares and Per Share Amounts)

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. 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 2,025 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, Petron 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 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 will exercise its option to purchase 16,000,000 shares of SRC from SEA BV, which was 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 was 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 BV 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 comprised 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 16.76%.

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

2. Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2011. The condensed consolidated interim financial statements do not include all the information required for full annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the audited consolidated financial statements of Petron Corporation and Subsidiaries (collectively referred to as the "Group") as at and for the year ended December 31, 2011. The audited consolidated financial statements are available upon request from the Group's registered office at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

The condensed consolidated interim financial statements as at and for the nine months ended September 30, 2012 were approved by the BOD on November 12, 2012.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2011. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended December 31, 2012.

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

The FRSC approved the adoption of a number of new and revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2012

The Group has adopted the following PFRS starting January 1, 2012 and accordingly, changed its accounting policies in the following areas:

- *Disclosures — Transfers of Financial Assets (Amendments to PFRS 7)*, require 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.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property.* The exception also applies to investment property acquired in a business combination accounted for in accordance with PFRS 3, *Business Combination*, provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Committee (SIC) — 21, *Income Taxes — Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC — 21 has been withdrawn.

Additional disclosures required by the amendments above were included in the condensed consolidated interim 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 these condensed consolidated interim financial statements. The Group does not plan to early adopt these new and revised standards, amendments to standards and interpretations and the extent of the impact has not been determined.

The Group will adopt the following new and revised standards, amendments to standards and interpretations in 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 statement of comprehensive income to 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 amendments are effective 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 amendments are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods and are to be applied retrospectively.

- 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. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements* and Philippine Interpretation Standards Interpretation Committee (SIC) — 12, *Consolidation — Special Purpose Entities.* The standard is effective 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). It: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC — 13, *Jointly Controlled Entities — Non-Monetary Contributions by Venturers.* The standard is effective 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, aiming to provide information to enable 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 standard is effective 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 amendments are effective 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 standard is effective 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 amendment is effective for annual periods beginning on or after January 1, 2013.

- PAS 27 (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 standard is effective 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 standard is effective for annual periods beginning on or after January 1, 2013.

- *Annual Improvements to PFRS 2009-2011 Cycle — Various Standards* contain amendments to 5 standards with consequential amendments to other standards and interpretations. The following are the said amendments to PFRS and interpretation:

    - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1)*. This is amended to clarify that only one comparative period — which is the preceding period — is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRS. For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRS. However, the entity need not present: (a) other primary statements for that additional comparative period, such as a third statement of cash flows; or (b) the notes related to these other primary statements. The amendments are effective 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)*. This is amended to clarify that: (a) the opening consolidated statement of financial position is required only if: (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, 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 PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 34, *Interim Financial Reporting*. The amendments are effective for annual periods beginning on or after January 1, 2013.

- Classification of Servicing Equipment (*Amendments to PAS 16*, *Property, Plant and Equipment).* This is amended to 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 that standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*. The amendments are effective for annual periods beginning on or after January 1, 2013.

- Income Tax Consequences of Distributions *(Amendments to PAS 32*, *Financial Instruments Presentation)*. This is amended to 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 amendments are effective 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 amendments are effective for annual periods beginning on or after January 1, 2013.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32).* These 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 amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

- Investment Entities *(Amendments to PFRS 10, PFRS 12, and PAS 27 (2011)).* These 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 amendments are effective for annual periods beginning on or after January 1, 2014.

- PFRS 9, *Financial Instruments (2010)*, PFRS 9, (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 PFRS 9 (2010) is expected to have an impact on the Group's consolidated financial statements and could change the classification and measurement of financial assets. PFRS 9 (2010 and 2009) is effective for annual periods beginning on or after January 1, 2015.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the condensed consolidated interim financial statements as they become reasonably determinable. Actual results may differ from these estimates.

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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended December 31, 2011.

5. **Segment Information**

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

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

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

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

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

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

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments as at September 30, 2012 and December 31, 2011 and for the nine months ended September 30, 2012 and 2011.

	Petroleum	**Insurance**	**Leasing**	**Marketing**	**Elimination**	**Total**
Period Ended September 30, 2012						
Revenue						
External Sales	**₱305,521**	**₱ —**	**₱ —**	**₱1,820**	**₱ —**	**₱307,341**
Inter-segment Sales	**142,407**	**86**	**273**	**—**	**(142,766)**	**—**
Segment results	**6,142**	**67**	**104**	**51**	**176**	**6,540**
Net income	**1,078**	**117**	**13**	**66**	**(342)**	**932**
As at September 30, 2012						
Assets and liabilities						
Segment assets	**292,183**	**1,859**	**4,496**	**1,224**	**(44,366)**	**255,396**
Segment liabilities	**203,850**	**473**	**3,547**	**475**	**(30,786)**	**177,559**
Other segment information						
Property, plant and equipment	**80,137**	**—**	**—**	**248**	**4,226**	**84,611**
Depreciation and amortization	**3,600**	**—**	**—**	**28**	**—**	**3,628**

	Petroleum	**Insurance**	**Leasing**	**Marketing**	**Elimination**	**Total**
Period Ended September 30, 2011						
Revenue						
External Sales	₱200,702	₱ —	₱ —	₱1,227	₱ —	₱201,929
Inter-segment Sales	159,033	89	265	—	(159,387)	—
Segment results	12,588	70	123	65	268	13,114
Net income	7,581	120	32	75	(208)	7,600
As at December 31, 2011						
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

The following tables present additional information on the petroleum business segment as at September 30, 2012 and December 31, 2011 and for the nine months ended September 30, 2012 and 2011:

	Retail	Lube	Gasul	Industrial	Others	Total
Property, plant and equipment						
As at September 30, 2012	**₱ 8,708**	**₱ 234**	**₱ 351**	**₱ 90**	**₱ 70,754**	**₱ 80,137**
As at December 31, 2011	5,189	279	205	78	40,714	46,465
Capital Expenditures						
As at September 30, 2012	**₱ 812**	**₱ —**	**₱ 157**	**₱ 26**	**₱ 38,716**	**₱ 39,711**
As at December 31, 2011	303	—	11	—	17,854	18,168
Revenue						
Period ended September 30, 2012	**₱84,238**	**₱2,183**	**₱15,549**	**₱87,045**	**₱117,797**	**₱306,812**
Period ended September 30, 2011	79,885	1,855	14,668	78,187	26,822	201,417

Geographical Segments

The following table presents revenue information regarding the geographical segments of the Group for the nine months ended September 30, 2012 and 2011.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
Period ended September 30, 2012						
Revenue						
Local	**₱198,295**	**₱48**	**₱273**	**₱1,820**	**₱ (2,182)**	**₱198,254**
Export/International	**249,633**	**38**	**—**	**—**	**(140,584)**	**109,087**
Period ended September 30, 2011						
Revenue						
Local	₱181,085	₱56	₱265	₱1,227	₱ (1,742)	₱180,891
Export/International	178,650	33	—	—	(157,645)	21,038

6. Acquisition of Subsidiaries

a. *Petron Global Limited (PGL)*

On February 13, 2012, Petron incorporated PGL in the British Virgin Islands. PGL has issued an aggregate of 31,171,180 common shares with a par value of US$1 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 to a third party investor.

b. *Petron Oil and Gas International Sd. 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 was able to acquire 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	**₱ 5,633**
Trade and other receivables — net	**12,789**
Inventories	**13,159**
Prepaid expenses and other current assets	**358**
Property, plant and equipment — net	**14,930**
Deferred tax assets	**25**
Other noncurrent assets — net	**6,541**
Liabilities	
Short-term loans	**(4,195)**
Liabilities for crude oil and petroleum product importation	**(1,316)**
Trade and other payables	**(16,973)**
Income tax payable	**(114)**
Long-term debt	**(10,123)**
Deferred tax liabilities	**(1,089)**
Other noncurrent liabilities	**(817)**
Total identifiable net assets at fair value	**₱ 18,808**

The Group is currently completing the purchase price allocation exercise on the acquisition of the above companies. The above amounts 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	**₱ 25,928**
Non-controlling interest measured at proportionate interest in identifiable net assets	**3,584**
Total identifiable net assets at fair value	**(18,808)**
Goodwill	**₱ 10,704**

Movement of goodwill for the nine months ended September 30, 2012 follows:

Goodwill beginning of the period	**₱10,704**
Translation adjustments	**(295)**
Goodwill end of period	**₱10,409**

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

In April 2012, New Ventures Realty Corporation (NVRC), a subsidiary, acquired 100% of PEDC.

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

Property, plant and equipment — net	**₱117**
Trade and other payables	**(5)**
Total identifiable net assets at fair value	**₱112**

The Group is currently completing the purchase price allocation exercise on the acquisition of PEDC. The above amounts 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	**₱ 132**
Total identifiable net assets at fair value	**(112)**
Goodwill	**₱ 20**

d. *Limay Energen Corporation (LEC)*

On April 13, 2012, the Parent Company completed the acquisition from Two San Isidro — SIAI Assets, Inc. of the latter's shares in LEC.

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 US$0.6 million.

The Group is currently completing the purchase price allocation on the acquisition of LEC and MLC. The amounts consolidated are based on provisionary amounts at their respective acquisition dates.

7. Property, Plant and Equipment

During the nine months ended September 30, 2012, net additions to property, plant and equipment amounted to ₱22,407 (December 31, 2011: ₱19,070).

Capital Commitments

As at September 30, 2012, the Group has outstanding commitments to acquire property, plant and equipment amounting to ₱2,820 (December 31, 2011: ₱4,278).

8. Fuel Supply Contract

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

As at September 30, 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)	DFO Total Contract Price	IFO Total Contract Price
December 29, 2011	January 11, 2012	NPC (Calayan DP & others) January-December 2012	39,000	21,335	1,682	758
December 29, 2011	February 29, 2012	NPC (Calapan Modular and Jolo) January-December 2012	23,708		1,032	
December 29, 2011	July 4, 2012	NPC Repeat to Order of CY 2012 Contract (July-December 2012)	5,783		258	

*IFO = *Industrial Fuel Oil*

DFO = *Diesel Fuel Oil*

KL = *Kilo Liters*

PSALM

Bid Date	Date of Award	Contract Duration	DFO* (in KL*)	IFO* (in KL)	DFO Total Contract Price (Php)	IFO Total Contract Price (Php)
February 21, 2012	March 9, 2012	PSALM-Power Barge 101 March-December 2012		5,950		205
February 21, 2012	March 9, 2012	PSALM-Power Barge 102 March-December 2012		6,830		236
February 21, 2012	March 9, 2012	PSALM-Power Barge 103 March-December 2012		5,960		208
February 21, 2012	March 9, 2012	PSALM-Power Barge 104 March-December 2012		18,550		643
February 21, 2012	March 9, 2012	PSALM-Southern Power Philippines Corporation March-December 2012		55,600		1,907
May 28, 2012	June 20, 2012	PSALM-Naga TPP Complex June-December 2012	570		25	
May 28, 2012	June 20, 2012	PSALM-Power Barge 101 June-December 2012	360		16	
May 28, 2012	June 20, 2012	PSALM-Power Barge 102 June-December 2012	480		21	
May 28, 2012	June 20, 2012	PSALM-Power Barge 103 June-December 2012	480		22	
May 28, 2012	June 20, 2012	PSALM-Power Barge 104 June-December 2012	830		36	
May 28, 2012	June 20, 2012	PSALM-Western Mindanao Power Corporation June-December 2012	60		3	

**IFO = Industrial Fuel Oil*

DFO = Diesel Fuel Oil

KL = Kilo Liters

9. Related Party Transactions

Transactions with Current Owners/Related Parties

a. Sales relate to the Parent Company's supply agreements with various subsidiaries of SMC. Under these agreements, the Parent Company supplies the bunker, diesel fuel and lube requirements of selected SMC plants and subsidiaries. Sales transaction, which generally priced at Mean of Platts Singapore (MOPS), amounted to ₱3,328 and ₱3,098 for the nine months ended September 30, 2012 and 2011, respectively.

b. Purchases relate to purchase of goods and services such as construction, information technology and shipping with various subsidiaries of SMC.

c. The Parent Company entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,759 square meters with a monthly rate of ₱4.7. 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.

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

e. The Parent Company advanced certain monies to the PCERP for some investment opportunities.

10. Loans and Borrowings

Short-term loans

The movements of short-term loans for the nine months ended September 30, 2012 follows:

Balance at January 1, 2012	₱ 40,593
Loan availments	210,038
Loan repayments	(180,394)
Reclassification/Translation adjustment	4,056
Balance at September 30, 2012	₱ 74,293

Average interest rates and maturities for these loans are consistent with that of December 31, 2011.

Long-term debts

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 spread of 2.35%. The loan proceeds will be used to finance the capital expenditure requirements of RMP-2. The first drawdown of US$80 was made on November 25, 2011.

On February 15, 2012 the Parent Company availed of the remaining US$400 of the US$480 term loan facility.

The loan will mature on November 25, 2016 and requires the Parent Company to comply with the following covenants:

1) The ratio of Consolidated Gross Adjusted Debt as at the last day of each relevant period to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization in respect of each relevant period does not exceed 6.5:1;

2) The ratio of Consolidated Gross Debt to Consolidated Net Worth does not at any time exceed 2.5:1; and

As at September 30, 2012, the Parent Company met all the covenants set out in its long-term debts.

11. Earnings Per Share

Basic and diluted earnings per share amounts for the nine-months ended September 30, 2012 and 2011 are as follows:

	2012	2011
Net income attributable to equity holders of the Parent Company	**₱ 886**	₱7,581
Dividends on preferred shares for the period	**953**	714
Net income (loss) attributable to common shareholders of Parent Company	**₱ (67)**	₱6,867
Weighted average number of common shares outstanding (in millions)	**9,375**	9,375
Basic and diluted earnings (loss) per common share	**₱(0.01)**	₱ 0.73

As at September 30, 2012 and 2011, the Group has no dilutive debt or equity instruments.

12. Dividends

On March 7, 2012, the BOD approved cash dividends of ₱2.382 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 ₱0.10 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 ₱2.382 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.

13. Seasonal Fluctuations

There were no seasonal aspects that had a material effect on the financial position or financial performance of the Group.

14. Commitments and Contingencies

Supply and Lease Agreements

The Parent Company assigned all its rights and obligations to Petron Singapore Trading Pte. Ltd. (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company ("Saudi Aramco"), based on the latter's standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the condensed consolidated interim statements of financial position as at September 30, 2012 and December 31, 2011. The contract is extended until October 27, 2013.

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 ₱93 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 at September 30, 2012, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

Unused Letters of Credit and Outstanding Standby Letters of Credit

Petron has unused letters of credit totaling approximately ₱45,100 and ₱25,452 as at September 30, 2012 and December 31, 2011, respectively.

Tax Credit Certificates-Related Matters

In 1998, the Bureau of Internal Revenue (BIR) issued a deficiency excise tax assessment against the Parent Company relating to the Parent Company's use of ₱659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company contested the BIR's assessment before the Court of Tax Appeals (CTA). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-(BOI) registered companies, the Parent Company was a qualified transferee of the TCCs and that the collection by 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 the Parent Company and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by the Parent Company as payment were fraudulent. 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.

In 2002, the BIR issued a ₱254 assessment against the Parent Company 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 the Parent Company. The Parent Company contested the assessment before the CTA. On May 4, 2007, the CTA Second Division denied the Parent Company's petition, ordering the Parent Company to pay the BIR ₱601 representing the Parent Company's ₱254 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. The Parent Company appealed the decision to the CTA *en banc,* which ruled in favor of the Parent Company, reversing the unfavorable decision of the CTA Second 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 the Parent Company 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 the Parent Company 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. 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 Second Division issued a resolution upholding its decision and denying the Office of the Solicitor General's motion for reconsideration with finality.

Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into a Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (RTC) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance 8119), which applied to the entire City of Manila. Ordinance 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (Ordinance 8187), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119.

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.

Guimaras Oil Spill Incident

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 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 ₱292. At present the cases are under mediation for possible amicable settlement among the parties.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petron Corporation and Subsidiaries
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, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The consolidated financial statements of Petron Corporation and Subsidiaries as at and for the year ended December 31, 2009 were audited by other auditors whose report thereon dated March 29, 2010, expressed an unqualified opinion on those statements.

MANABAT SANAGUSTIN CO. & CPAs

/s/ JORGE MA. S. SANAGUSTIN
JORGE MA. S. SANAGUSTIN
Partner
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SEC Accreditation No. 0026-AR-3, Group A, valid until January 4, 2015
Tax Identification No. 124-282-616
BIR Accreditation No. 08-001987-7-2010
Issued June 30, 2010; valid until June 29, 2013
PTR No. 3174027MA
Issued January 2, 2012 at Makati City

March 7, 2012
Makati City, Metro Manila

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

	Note	December 31 2011	2010
ASSETS			
Current Assets			
Cash and cash equivalents	*6,33,34*	**₱ 23,823**	₱ 43,984
Financial assets at fair value through profit or loss	*7,33,34*	**237**	227
Available-for-sale financial assets	*8,33,34*	**—**	178
Trade and other receivables—net	*4,9,27,33,34*	**26,605**	24,266
Inventories	*4,10*	**37,763**	28,145
Other current assets	*14*	**8,178**	4,286
		96,606	101,086
Assets held for sale	*5*	**10**	823
Total Current Assets		**96,616**	101,909
Noncurrent Assets			
Available-for-sale financial assets	*8,33,34*	**1,036**	983
Property, plant and equipment—net	*4,12,36*	**50,446**	34,957
Investments in associates	*4,11*	**2,505**	804
Investment property—net	*4,13*	**794**	119
Deferred tax assets	*4,26*	**15**	28
Other noncurrent assets—net	*4,14,33,34*	**24,383**	23,016
Total Noncurrent Assets		**79,179**	59,907
		₱175,795	₱161,816
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*15,33,34*	**₱ 40,593**	₱ 32,457
Liabilities for crude oil and petroleum product importation	*33,34*	**13,842**	11,194
Trade and other payables	*16,27,33,34*	**7,381**	6,744
Derivative liabilities	*33,34*	**55**	30
Income tax payable		**78**	14
Current portion of long-term debt—net	*17,33,34*	**4,124**	11,517
Total Current Liabilities		**66,073**	61,956
Noncurrent Liabilities			
Long-term debt—net of current portion	*17,33,34*	**₱ 45,744**	₱ 42,885
Retirement benefits liability	*29*	**671**	249
Deferred tax liabilities	*26*	**1,819**	1,958
Asset retirement obligation	*4,18*	**1,061**	815
Other noncurrent liabilities	*19,33,34*	**740**	609
Total Noncurrent Liabilities		**50,035**	46,516
Total Liabilities		**116,108**	108,472
Equity Attributable to Equity Holders of the Parent Company	*20*		
Capital stock		**9,475**	9,475
Additional paid-in capital		**9,764**	9,764
Retained earnings		**40,088**	33,748
Other reserves		**70**	83
Total Equity Attributable to Equity Holders of the Parent Company		**59,397**	53,070
Non-controlling interest		290	274
Total Equity		**59,687**	53,344
		₱175,795	₱161,816

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(With Comparative Figures for 2009)
(Amounts in Million Pesos, Except Per Share Amounts)

	Note	**2011**	**2010**	**2009**
SALES	27, 36	**₱273,956**	₱229,094	₱176,531
COST OF GOODS SOLD	21	**250,826**	209,280	161,583
GROSS PROFIT		**23,130**	19,814	14,948
SELLING AND ADMINISTRATIVE EXPENSES	22	**(8,296)**	(7,303)	(5,748)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	25	**(5,124)**	(4,297)	(4,251)
INTEREST INCOME	25	**1,380**	827	205
SHARE IN NET LOSSES OF ASSOCIATES	11	**(137)**	(151)	—
OTHER INCOME—Net	25	**168**	1,409	597
		(12,009)	(9,515)	(9,197)
INCOME BEFORE INCOME TAX		**11,121**	10,299	5,751
INCOME TAX EXPENSE	26, 35	**2,636**	2,375	1,492
NET INCOME		**₱ 8,485**	₱ 7,924	₱ 4,259
Attributable to:				
Equity holders of the Parent Company	31	**₱ 8,469**	₱ 7,894	₱ 4,240
Non-controlling interest		**16**	30	19
		₱ 8,485	₱ 7,924	₱ 4,259
BASIC/DILUTED EARNINGS PER COMMON SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	31	**₱ 0.78**	₱ 0.77	₱ 0.45

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(With Comparative Figures for 2009)
(Amounts in Million Pesos)

	Note	2011	2010	2009
NET INCOME		**₱8,485**	₱7,924	₱4,259
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized fair value gains (losses) on available-for-sale financial assets (net of tax effects of ₱10 and ₱14 in 2010 and 2009, respectively)	*8, 20*	**(1)**	22	34
Exchange differences on translation of foreign operations	*20*	**(12)**	2	11
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR—NET OF TAX		**(13)**	24	45
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**₱8,472**	₱7,948	₱4,304
Attributable to:				
Equity holders of the Parent Company		**₱8,456**	₱7,918	₱4,285
Non-controlling interest		**16**	30	19
		₱8,472	₱7,948	₱4,304

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(With Comparative Figures for 2009)
(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 Interest	Total Equity
As of January 1, 2011		**₱9,475**	**₱9,764**	**₱15,543**	**₱18,205**	**₱ 83**	**₱53,070**	**₱274**	**₱53,344**
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	*20*	**—**	**—**	**9,628**	**(9,628)**	**—**	**—**	**—**	**—**
Cash dividends	*20*	**—**	**—**	**—**	**(2,129)**	**—**	**(2,129)**	**—**	**(2,129)**
As of December 31, 2011		**₱9,475**	**₱9,764**	**₱25,171**	**₱14,917**	**₱ 70**	**₱59,397**	**₱290**	**₱59,687**
As of January 1, 2010		₱9,375	₱ —	₱15,492	₱12,014	₱ 59	₱36,940	₱244	₱37,184
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	*20*	—	—	51	(51)	—	—	—	—
Cash dividends	*20*	—	—	—	(1,652)	—	(1,652)	—	(1,652)
Issuance of shares	*20*	100	9,764	—	—	—	9,864	—	9,864
As of December 31, 2010		₱9,475	₱9,764	₱15,543	₱18,205	₱ 83	₱53,070	₱274	₱53,344
As of January 1, 2009		₱9,375	₱ —	₱23,920	₱ (654)	₱ 14	₱32,655	₱225	₱32,880
Unrealized fair value gain on available-for-sale financial assets, net of tax		—	—	—	—	34	34	—	34
Exchange differences on translation of foreign operations		—	—	—	—	11	11	—	11
Total comprehensive income		—	—	—	—	45	45	—	45
Net income for the year		—	—	—	4,240	—	4,240	19	4,259
Total comprehensive income for the year		—	—	—	4,240	45	4,285	19	4,304
Reversal of appropriation for capital projects	*20*	—	—	(8,428)	8,428	—	—	—	—
As of December 31, 2009		₱9,375	₱ —	₱15,492	₱12,014	₱ 59	₱36,940	₱244	₱37,184

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(With Comparative Figures for 2009)
(Amounts in Million Pesos)

	Note	**2011**	**2010**	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱ 11,121**	₱ 10,299	₱ 5,751
Adjustments for:				
Share in net losses of associates	*11*	**137**	151	—
Retirement benefits cost	*29*	**422**	197	317
Interest expense and other financing charges	*25*	**5,124**	4,297	4,251
Depreciation and amortization	*24*	**3,657**	3,540	3,588
Interest income	*25*	**(1,380)**	(827)	(205)
Unrealized foreign exchange losses (gains)—net		**123**	(1,053)	66
Other gain		**(78)**	(76)	(26)
Operating income before working capital changes		**19,126**	16,528	13,742
Changes in noncash assets, certain current liabilities and others	*32*	**(13,639)**	4,123	(4,902)
Interest paid		**(5,309)**	(3,897)	(4,311)
Income taxes paid		**(752)**	(108)	(91)
Interest received		**1,364**	807	214
Net cash flows provided by operating activities		**790**	17,453	4,652
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to (including disposals):				
Property, plant and equipment	*12*	**(19,070)**	(4,417)	(1,928)
Investment property	*13*	**96**	—	—
Decrease (increase) in:				
Other receivables		**(637)**	6,087	1,135
Other noncurrent assets		**2,232**	939	(241)
Reductions from (additions to):				
Financial assets at fair value through profit or loss		**(9)**	40	14
Long term investments and advances		**(5,374)**	(24,084)	—
Available-for-sale financial assets		**125**	194	(673)
Net cash flows used in investing activities		**(22,637)**	(21,241)	(1,693)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans		**₱ 134,354**	₱ 204,941	₱ 166,214
Payments of:				
Loans		**(131,148)**	(178,913)	(168,836)
Cash dividends	*20*	**(1,886)**	(1,628)	—
Issuance of preferred stock		**—**	9,864	—
Increase (decrease) in other noncurrent liabilities		**338**	334	(114)
Net cash flows provided by (used in) financing activities		**1,658**	34,598	(2,736)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**28**	189	(65)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(20,161)**	30,999	158
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**43,984**	12,985	12,827
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**₱ 23,823**	₱ 43,984	₱ 12,985

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(With Comparative Figures for 2009)
(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, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 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'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 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 quorum 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 will 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 is 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 beneficially owns 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. With the sale of PCERP's shares in Petron, Petron's public float increased to 14.88%.

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 includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements for the year ended December 31, 2011 (including comparatives for the years ended December 31, 2010 and 2009) were approved and authorized for issue by the BOD on March 7, 2012.

Basis of Measurement

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

- derivative financial instruments are measured at fair value;
- financial assets at fair value through profit or loss (FVPL) are measured at fair value;
- available-for-sale (AFS) financial assets are measured at fair value; and
- defined benefit asset (liability) is measured as the net total of the fair value of the plan assets, less unrecognized actuarial losses (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 values expressed in Philippine peso are rounded off to the nearest million (₱000,000), 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 2011	Percentage of Ownership 2010	Country of Incorporation
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 Subsidiary	**40.00**	40.00	Philippines

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 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, power to appoint or remove the majority of the members of the BOD of NVRC and power to cast majority votes at meeting of the BOD of NVRC.

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.

3. Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The FRSC approved the adoption of a number of new or revised standards, amendments to standards, and interpretations (based on IFRIC Interpretations) as part of PFRS.

Adopted Effective 2011

The Group has adopted the following PFRS starting January 1, 2011 and accordingly, changed its accounting policies in the following areas:

- Amendment to PAS 32*, Financial Instruments: Presentation—Classification of Rights Issues*, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after February 1, 2010. The adoption of this amendment to standard did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39, *Financial Instruments*, paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010. The adoption of this Philippine interpretation did not have a material effect on the consolidated financial statements.

- Revised PAS 24, *Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this revision to standard did not have a material effect on the consolidated financial statements.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- *Improvements to PFRS 2010* contain 11 amendments to 6 standards and 1 interpretation. The following are the said amendments to PFRS and interpretation:

    - PFRS 3, *Business Combinations*. The amendments: (a) clarify that contingent consideration arising in a business combination previously accounted for in accordance with PFRS 3 (2004) that remains outstanding at the adoption date of PFRS 3 (2008) continues to be accounted for in accordance with PFRS 3 (2004); (b) limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and

(c) expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 27*, Consolidated and Separate Financial Statements*. The amendments clarify that the consequential amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures,* resulting from PAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendments are effective for annual periods beginning on or after July 1, 2010. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to enable users to evaluate better an entity's exposure to risks arising from financial instruments. In addition, the existing disclosure requirements have been amended and removed. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- PAS 34, *Interim Financial Reporting*. The amendments add examples to the list of events or transactions that require disclosure under PAS 34 and remove references to materiality in PAS 34 that describes other minimum disclosures. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programs*. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendments are effective for annual periods beginning on or after January 1, 2011. The adoption of these amendments did not have a material effect on the consolidated financial statements.

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing the consolidated financial statements. The Group does not plan to early adopt these new or revised standards, amendments to standards and interpretations and the extent of the impact has not been determined.

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

- *Disclosures—Transfers of Financial Assets (Amendments to PFRS 7)*, require 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 derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12, Income Taxes)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40, *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with PFRS 3 provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation Standards Interpretation Committee (SIC)—21, *Income Taxes—Recovery of Revalued Non-Depreciable Assets* into PAS 12, and as a result Philippine Interpretation SIC—21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and will be applied retrospectively.

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1)*. 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 statement of comprehensive income to 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 effective date of the amendments is for periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements*. PFRS 10 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) and Philippine Interpretation SIC—12, Consolidation—Special Purpose Entities. The new standard is effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 12, *Disclosure of Interests in Other Entities.* PFRS 12 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, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The new standard is effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*. PFRS 13 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 new standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted and required to be disclosed.

- PAS 19, *Employee Benefits (*amended 2011). The amended PAS 19 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 amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (2011). PAS 27 (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 amendment is required for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (2011). PAS 28 (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 amended or revised standard is required for annual periods beginning on or after January 1, 2013.

- PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation—IFRIC 9, *Reassessment of Embedded Derivatives.* The adoption of the new standard is required for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC-15, *Agreements for the Construction of Real Estate,* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and the timing of revenue recognition. The Philippine SEC issued a notice dated August 5, 2011 that defers the adoption of this interpretation indefinitely.

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 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 from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are 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 at FVPL if it is classified as held for trading or is designated as such upon initial recognition. 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 financial assets at FVPL and derivative assets are included in this category (Note 7).

The carrying values of financial assets under this category amounted to ₱237 and ₱227 as of December 31, 2011 and 2010, respectively (Note 34).

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables 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 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 14).

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 which are subject to an insignificant risk of changes in value.

The combined carrying values of financial assets under this category amounted to ₱74,303 and ₱90,819 as of December 31, 2011 and 2010, respectively (Note 34).

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 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.

As of December 31, 2011 and 2010, the Group has no investments accounted for under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified under any of the other financial asset categories. Subsequent to initial recognition, they 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 in equity. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS investment securities, is reported as part of "Interest income" in the consolidated statements of income. The unrealized gains and losses arising from the changes in fair value of AFS financial assets, net of tax, are excluded from profit or loss and are recognized as other comprehensive income reported in the consolidated statements of comprehensive income and in the consolidated statements of changes in equity. Any interest earned on AFS debt securities shall be recognized as part of "Interest income" in the consolidated statements of income on an accrual basis. Dividends earned on holding AFS equity securities are recognized as "Dividend income" when the right of collection 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.

Where the Group holds more than one investment in the same security, these are deemed to be disposed on a first-in, first-out basis. Interest and dividends earned on holding AFS financial assets are recognized in "Other Income" account in the consolidated statements of income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as impairment losses 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 investment in equity and debt securities included under "AFS" account are classified under this category (Note 8).

The carrying values of financial assets under this category amounted to ₱1,036 and ₱1,161 as of December 31, 2011 and 2010, respectively (Note 34).

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 values of financial liabilities under this category amounted to ₱55 and ₱30 as of December 31, 2011 and 2010, respectively (Note 34).

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 e.g. debt issue costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are 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 (Notes 15, 16, 17 and 19).

The combined carrying values of financial liabilities under this category amounted to ₱111,643 and ₱104,843 as of December 31, 2011 and 2010, respectively (Note 34).

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.

Embedded Derivatives

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

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset 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 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 value 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 the 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.

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

For acquisitions of non-controlling interests on or after January 1, 2010, the acquisitions 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 under the equity method of accounting from the date when it becomes an associate. 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 and 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 of the profit or loss of the associate after the date of acquisition. The Group's share of the profit or loss of the associate is recognized in the Group's profit or loss. Dividends received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amounts 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. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of 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 and 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. 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, incorporated on September 29, 2004 under the laws of the Republic of the Philippines, 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 reflects the Group's share in the results of operations of the joint venture presented as part of "Other Income (Expenses)—Others" account (Note 25). 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 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 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 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 property, plant and equipment are capitalized during the construction period. Construction in progress 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 are computed using the straight-line method over the estimated useful lives of the following assets:

	Number of Years	
Buildings and related facilities	2 - 25	
Refinery and plant equipment	5 - 16	
Service stations and other equipment	1 ½ - 10	
Computers, office and motor equipment	2 - 10	
Leasehold improvements	10	or the term of the lease, whichever is shorter

The remaining useful lives, residual values, depreciation and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation and amortization 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 values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value 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 on the retirement and 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 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 financial year-end.

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. Gains and 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 sale.

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.

Cylinder Deposits

The LPG cylinders remain the property of the Group and are loaned to dealers upon payment by the latter of an equivalent 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 ₱200 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.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. 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 asset 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 financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is 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 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, 2011 and 2010, 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 Non-financial 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 values may not be recoverable. If any such indication exists, and if the carrying value 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 or 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 of continuing operations are recognized in the consolidated statements of income 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 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.

Provisions

Provisions are recognized when the Group has: a) 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 those 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 are recognized as a deduction from equity, net of any tax effect.

Preferred Shares

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends 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 it is 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.

Revenue

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

Sale of Goods. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, title has transferred, selling price is fixed or determinable and collectibility of the selling price is reasonably assured.

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

Rental Income. Revenue from investment property is recognized on a straight-line basis over the term of the lease. Rent income is included as part of other income.

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

Revenue is measured by reference to the fair value of the consideration received or receivable by the Group for goods supplied and services provided, excluding sales tax (or value-added tax (VAT)) except where:

- the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales 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 sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of "Trade and Other Receivables" or "Trade and Other Payables" account in the consolidated statements of financial position.

Cost and Expense Recognition

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

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;

(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) above, and at the date of renewal or extension period for scenario (b).

Group as Lessee. Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased property, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Leased asset is depreciated over its estimated useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

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 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, reduced by actuarial gains and losses and 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 currency 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 year.

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 equity investments, 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 at the reporting dates.

Foreign currency differences are recognized in other comprehensive income, and included as part of “Other Reserves” 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 other reserves 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 reserve” 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.

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 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 law 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

Non-current 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 or distribution. 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 property 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 loss.

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 or distribution.

When an asset no longer meets the criteria to be classified as held for sale, the Group shall cease to classify such as held for sale. Transfers from assets held for sale are measured at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale, 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 common 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 or loss for the period attributable to ordinary 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.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments,* 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 purchase between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

The Group's CEO (the chief operating decision maker) reviews management reports on a regular basis.

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 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 amounts 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 a 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.

Determining Fair Values of Financial Instruments. Where the fair values of financial assets and liabilities recorded 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 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 2011, 2010 and 2009 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 and legal 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 consolidated 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 38).

Estimates

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 ₱75, ₱481 and ₱58 in 2011, 2010 and 2009, respectively (Note 22). Receivables written off amounted ₱3 in 2010. There were no receivables written off in 2011 (Note 9).

The carrying value of receivables, amounted to ₱26,605 and ₱24,266 as of December 31, 2011 and 2010, 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 ₱37,763 and ₱28,145 as at the end of 2011 and 2010, 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 2011 and 2010, the carrying amount of inventories is mostly based on cost.

There is no inventory write-down provided in 2011 and 2010.

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.

Provision for inventory obsolescence included in profit or loss in 2010 and 2009 amounted to ₱69 and ₱7, respectively (Note 10).

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 34.

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 ₱34,640 and ₱31,035 as of December 31, 2011 and 2010, respectively (Notes 12 and 13). Property, plant and equipment, net of accumulated depreciation and amortization amounted to ₱50,446 and ₱34,957 as of December 31, 2011 and 2010, respectively (Note 12). Investment property, net of accumulated depreciation amounted to ₱794 and ₱119 as of December 31, 2011 and 2010, 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 ₱1,391 and ₱150 as of December 31, 2011 and 2010, respectively (Note 13).

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 ₱15 and ₱28 as of December 31, 2011 and 2010, respectively (Note 26).

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 2011, 2010 and 2009.

The aggregate carrying amount of investments in associates, property, plant and equipment, intangible assets and investment property amounted to ₱53,753 and ₱35,890 as of December 31, 2011 and 2010, respectively (Notes 12, 13 and 14).

Present Value of Defined Benefit Obligation. The present value of the retirement benefits 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 29 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 liability 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 pension obligations. 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 benefits liability.

Other key assumptions for defined benefit obligation 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 ₱7,243 and ₱21,853 as of December 31, 2011 and 2010, respectively (Note 29).

Asset Retirement Obligation. The Group has an asset retirement obligation arising from leased service stations and depots. Determining asset retirement obligation requires estimation of the costs of dismantling, installations and restoring leased properties to their original condition. The Group determined the amount of asset retirement obligation, 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 4.75% to 10.17% 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 asset retirement obligation 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 asset retirement obligation amounting to ₱1,061 and ₱815 as of December 31, 2011 and 2010, respectively (Note 18), covers only the Group's leased service stations and depots.

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 lots. On December 1, 2010, BOD approved the sale of these properties to provide cash flows for various projects. Accordingly, this property, with a carrying amount of ₱823 was presented as "Assets held for sale" as of December 31, 2010. On May 2, 2011, the Parent Company sold the 32nd floor (with total floor area of 1,530 square meters) and 10 parking lots, with a total book value of ₱57. 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. As of December 31, 2011, the carrying amount of assets held for sale amounted to ₱10, which comprised of buildings for stand-alone convenience stores (Treats) and locators held by PMC.

6. Cash and Cash Equivalents

This account consists of:

	Note	2011	2010
Cash on hand		**₱ 4,295**	₱ 3,626
Cash in banks		**2,633**	2,822
Short-term placements		**16,895**	37,536
	33, 34	**₱23,823**	₱43,984

Cash in banks earns 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 25) at the respective short-term placement rates ranging from 1.25% to 6.25% in 2011 and 1.6% to 6.25% in 2010.

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Note	2011	2010
Proprietary membership shares	*33, 34*	**₱ 98**	₱ 97
Marketable equity securities	*33, 34*	**96**	96
Derivative assets	*33, 34*	**43**	34
		₱237	₱227

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 34).

Changes in fair value recognized in 2011, 2010 and 2009 amounted to ₱1, ₱64 and ₱22, respectively (Note 25).

8. Available-for-Sale Financial Assets

This account at December 31 consists of:

	2011	2010
Government securities	**₱ 873**	₱ 998
Other debt securities	**163**	163
	₱1,036	₱1,161

Petrogen's government securities are deposited with the Insurance Commission (IC) in accordance with the provisions of the IC, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates of 6.0% to 8.75% in 2011 and 6.25% to 8.875% in 2010 (Note 25).

Other debt securities include Ovincor's ROP9 bonds which are maintained at the Bank of Bermuda and are carried at fair value with weighted average effective interest rate of 4.3% in 2011 and 2010.

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

	Note	2011	2010
Due in one year or less		**₱ —**	₱ 178
Due after one year through five years		**1,036**	983
	33, 34	**₱1,036**	₱1,161

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

	2011	2010
Balance at beginning of year	**₱1,161**	₱1,355
Additions	**70**	—
Disposals	**(173)**	(168)
Amortization of premium	**(19)**	(19)
Fair value gains (losses)	**(1)**	32
Foreign currency losses	**(2)**	(39)
Balance at end of year	**₱1,036**	₱1,161

9. Trade and Other Receivables

This account consists of:

	Note	2011	2010
Trade	*33*	**₱17,889**	₱ 13,121
Related parties—trade	*27,33*	**745**	1,779
Allowance for impairment loss on trade receivables		**(1,084)**	(1,051)
		17,550	13,849
Government		**5,736**	6,688
Others		**3,594**	3,983
Allowance for impairment loss on non-trade receivables		**(275)**	(254)
		9,055	10,417
	33,34	₱26,605	₱ 24,266

Trade receivables are noninterest-bearing and are generally on a 45 day term. Government receivables pertain to tax claims, such as VAT and specific tax claims. Of these receivables, ₱4,074 is over 30 days but less than one year. The filing and the collection of claims is a continuous process and is closely monitored.

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 2011 and 2010 is shown below:

	Note	2011	2010
Balance at beginning of year		**₱1,305**	₱ 835
Additions	*22*	**75**	481
Write off		**—**	(3)
Interest income on accretion		**(6)**	(8)
Balance at end of year		**1,374**	1,305
Less noncurrent portion for long-term receivables	*14*	**15**	—
		₱1,359	₱1,305

There was no reversal of allowance for impairment losses in 2011 and 2010.

As of December 31, 2011 and 2010, the age of past due but not impaired trade accounts receivable (TAR) is as follows (Note 33):

	Past Due But Not Impaired				
	Within 30 days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
December 31, 2011					
Reseller	**₱ 30**	**₱ 3**	**₱ 2**	**₱ 5**	**₱ 40**
Lubes	**—**	**1**	**2**	**3**	**6**
Gasul	**13**	**22**	**68**	**33**	**136**
Industrial	**61**	**62**	**384**	**307**	**814**
Others	**4**	**408**	**144**	**70**	**626**
	₱108	**₱496**	**₱600**	**₱418**	**₱1,622**
December 31, 2010					
Reseller	₱ 15	₱ 31	₱ 6	₱ 1	₱ 53
Lubes	2	3	2	4	11
Gasul	39	52	37	44	172
Industrial	95	265	164	250	774
Others	—	5	61	68	134
	₱151	₱356	₱270	₱367	₱1,144

No allowance for impairment is necessary as regard 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

Inventories at net realizable value consist of:

	2011	2010
Crude oil and others	**₱19,322**	₱13,532
Petroleum	**17,378**	13,749
TBA products, materials and supplies:		
Materials and supplies	**1,033**	837
TBA	**30**	27
	₱37,763	₱28,145

The cost of these inventories amounted to ₱38,150 and ₱28,532 as at December 31, 2011 and 2010, 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 ₱379 and ₱715 as of December 31, 2011 and 2010, respectively.

Research and development costs (Note 22) on these products constituted the expenses incurred for internal projects in 2011 and 2010.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to ₱244,937, ₱203,767 and ₱156,001 in 2011, 2010 and 2009, respectively (Note 21).

The movements in allowance for decline in value of inventories at the beginning and end of 2011 and 2010 follow:

	2011	2010
Balance at beginning of year	**₱387**	₱402
Additions due to obsolescence	**—**	69
Reversal of allowance for write-down	**—**	(84)
Balance at end of year	**₱387**	₱387

Reversal of allowance for inventory write-down in 2010, which was due to price changes, was charged as part of "Others" under "Cost of Goods Sold" account (Note 21).

11. Investments in Associates

This account consists of:

	2011	2010
Acquisition cost:		
Balance at beginning of year	**₱ 958**	₱ —
Additions	**1,838**	958
Balance at end of year	**2,796**	958
Share in net losses:		
Balance at beginning of year	**(154)**	—
Share in net losses during the year	**(137)**	(151)
Share in comprehensive loss	**—**	(3)
Balance at end of year	**(291)**	(154)
	₱2,505	₱ 804

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. It has an authorized capital of Hong Kong Dollar (HK$) 585 million, consisting of 585,000,000 shares at HK$1 per share. Of this, 455,000,000 shares are outstanding. PAHL was incorporated in March 2008 and 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 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 "Class B" ordinary shares to another investor, which reduced Petron's ownership in PAHL to 33 %.

PAHL commenced operation in the first quarter of 2011.

As of December 31, 2011 and 2010, cost of investment in PAHL amounted to ₱745.

Limay Energen Corp. (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 ₱3,400. Out of its authorized capitalization, ₱850 has been subscribed, of which ₱213 has been paid up. The Group owns 40% of LEC, while Two San Isidro owns the remaining 60%.

In 2011, the Parent Company infused ₱1,147 to LEC to fully pay its 40% equity share.

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

As of December 31, 2011 and 2010, cost of investment in LEC amounted to ₱1,360 and ₱213, respectively.

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, 2011, the cost of investment in MNHPI amounted to ₱691.

Following are the unaudited condensed and combined financial information of PAHL, LEC and MNHPI in 2011 and PAHL and LEC in 2010:

	2011	**2010**
Total assets	**₱12,616**	₱3,880
Total liabilities	**7,183**	2,181
Net loss	**422**	576

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, 2009	₱14,702	₱36,851	₱4,070	₱2,026	₱4,244	₱ 1,451	₱63,344
Additions	40	4	151	138	92	4,053	4,478
Disposals/reclassifications	(857)	437	1,132	(19)	190	(2,708)	(1,825)
Assets held for sale	(14)	—	—	—	—	—	(14)
December 31, 2010	13,871	37,292	5,353	2,145	4,526	2,796	65,983
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**
Accumulated depreciation and amortization:							
December 31, 2009	7,815	14,439	3,384	1,658	1,264	—	28,560
Additions	712	2,113	387	163	108	—	3,483
Disposals/reclassifications	(898)	—	(15)	(93)	(3)	—	(1,009)
Assets held for sale	(8)	—	—	—	—	—	(8)
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**
Net book value:							
December 31, 2010	₱ 6,250	₱20,740	₱1,597	₱ 417	₱3,157	₱ 2,796	₱34,957
December 31, 2011	**₱ 5,946**	**₱19,232**	**₱1,847**	**₱1,190**	**₱4,063**	**₱18,168**	**₱50,446**

Interest capitalized in 2011 amounted to ₱198. Capitalization rate used for general borrowings (both short and long-term loans) was at 6.76% in 2011 (Note 17).

No impairment loss was required to be recognized in 2011 and 2010.

Capital Commitments

As of December 31, 2011, the Group has outstanding commitments to acquire property, plant and equipment amounting to ₱4,278.

13. Investment Property

The movements and balances as of December 31 follow:

	Land	Office Units	Total
Cost:			
December 31, 2009	₱100	₱ 263	₱ 363
Additions	—	759	759
Reclassifications	—	(994)	(994)
December 31, 2010	100	28	128
Reclassifications	—	1,005	1,005
Disposals	—	(70)	(70)
December 31, 2011	**100**	**963**	**1,063**
Accumulated depreciation:			
December 31, 2009	—	131	131
Additions	—	55	55
Reclassifications	—	(177)	(177)
December 31, 2010	—	9	9
Additions	—	91	91
Reclassifications	—	182	182
Disposals	—	(13)	(13)
December 31, 2011	**—**	**269**	**269**
Net book value:			
December 31, 2010	₱100	₱ 19	₱ 119
December 31, 2011	**₱100**	**₱ 694**	**₱ 794**

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

Estimated fair values for the office units, based on recent sale of units within the building and/or sale of units in comparative Grade A buildings, amounted to ₱1,271 and ₱30 as at December 31, 2011 and 2010, respectively.

The Group's parcels of land are located in Metro Manila and some major provinces. As of December 31, 2011 and 2010, the aggregate fair market value of the properties of ₱120, 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 ₱58, ₱16 and ₱13 in 2011, 2010 and 2009, respectively, which are recognized as part of "Other income (expenses)" account (Note 25).

14. Other Assets

This account consists of:

	Note	2011	2010
Current:			
Input VAT		**₱ 7,291**	₱ 3,399
Prepaid expenses		**763**	781
Special-purpose fund		**41**	41
Others		**83**	65
		₱ 8,178	₱ 4,286
Noncurrent:			
Due from related parties	*27,33,34*	**₱23,787**	₱22,447
Catalyst		**216**	169
Prepaid rent		**25**	27
Long-term receivables—net	*33,34*	**88**	122
Others—net		**267**	251
		₱24,383	₱23,016

The "Noncurrent assets—others" account includes franchise fees amounting to ₱9 and ₱10 in 2011 and 2010, respectively, net of amortization of franchise fees amounting to ₱2 in 2011 and 2010. Amortization of franchise fee is included as part of "Selling and Administrative—Depreciation and amortization" account in the consolidated statements of income (Note 22).

Included in Due from related parties is an advance made by the Parent Company to PCERP. Such advance was partially paid on January 24, 2012.

15. Short-term Loans

This account pertains to unsecured peso loans obtained from local banks with maturities ranging from 30 to 120 days with annual interest ranging from 3.20% to 4.75% (Note 25). These loans are intended to fund the importation of crude oil and petroleum products (Note 10), capital expenditures (Note 12) and working capital requirements.

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

16. Trade and Other Payables

This account consists of:

	Note	2011	2010
Trade		**₱3,196**	₱3,772
Specific taxes and other taxes payable		**781**	563
Accrued rent		**693**	688
Related parties—trade	*27*	**652**	90
Accrued interest		**513**	742
Dividends payable		**438**	196
Insurance liabilities		**132**	237
Accrued payroll		**37**	41
Others		**939**	415
		₱7,381	₱6,744

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

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

17. Long-term Debt

This account consists of:

	Note	2011	2010
Unsecured Peso denominated (net of debt issue cost):			
Fixed rate corporate notes of 7% in 2010 to 2017 (f)		**₱19,803**	₱19,779
Fixed rate corporate notes of 8.88%, 8.14% and 9.33% (a, d)		**9,840**	16,162
Fixed rate corporate notes of 6.3212% and 7.1827% (i)		**3,563**	—
Floating rate peso loan based on PDST-F and SDA rates (b, g)		**1,200**	2,466
Fixed rate peso loans of 6.73% (c)		**154**	767
Unsecured Foreign currency denominated (net of debt issue cost):			
Floating rate dollar loan based on LIBOR rate + 2.15% (e)		**11,889**	15,228
Floating rate dollar loan (h)		**3,419**	—
	33,34	**49,868**	54,402
Less current portion		**4,124**	11,517
		₱45,744	₱42,885

a. The ₱6,300 Fixed Rate Corporate Notes issued by the Parent Company on July 31, 2006 to finance the construction of its Petro Fluidized Catalytic Cracker Unit (PFCCU) and Propylene Recovery Unit and for other general purposes has matured and was fully paid on August 2, 2011.

b. On November 29, 2006, the Parent Company entered into a loan agreement with Land Bank of the Philippines amounting to ₱2,000 which bears interest calculated based on the prevailing 3-month MART (now PDST-F) rate plus a fixed spread. The loan was used to finance the Parent Company's capital expenditures. The loan has a term of 5 years, inclusive of 2 years grace period whereby the principal is payable in 12 equal quarterly amortization starting March 2009. The loan has been fully paid on November 29, 2011.

c. On January 31, 2007, the Parent Company entered into a Club loan agreement with Metropolitan Bank and Trust Company and Citibank amounting to ₱1,000 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 ₱900 of its interest in the Club loan agreement to the following financial institutions:

Bank Name	Amount
MayBank Phils.	₱500
Mega International Commercial Bank of China	300
Robinsons Bank	100
	₱900

In May 2008, Citibank assigned its remaining ₱100 interest to Insular Life Assurance Co. Ltd. The loan was fully paid on January 31, 2012.

d. On June 5, 2009, the Parent Company issued ₱5,200 and ₱4,800 or a total of ₱10,000 Fixed Rate Corporate Notes. The ₱5,200 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 ₱4,800 seven-year Notes bear a fixed rate of 9.33% per annum with 6 principal payments of ₱48 per year commencing June 2010 and a one-time payment of ₱4,512 in June 2016.

e. 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.

f. On November 10, 2010, the Parent Company issued a ₱20,000 Peso-Denominated Notes, payable in U.S. Dollars. 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 U.S. dollars based on the average representative market rate at the applicable rate calculation date at the time of each payment.

g. On December 14, 2010, the Parent Company entered into a three-year term facility agreement with the Development Bank of the Philippines amounting to ₱1,800. The loan is subject to quarterly repricing and the principal amount is amortized in twelve quarterly installments of ₱150 starting March 2011 up to 2014. The loan was obtained to finance the Parent Company's general corporate requirements.

h. 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 spread of 2.35%. The loan proceeds will be used to finance the capital expenditure requirements of RMP-2. The first drawdown of US$80 was made on November 25, 2011. The balance of US$400 will be available for drawdown until March 30, 2012.

i. The Parent Company issued Fixed Rate Corporate Notes (FXCN) totaling ₱3,600 on October 25, 2011. The FXCN consisted of Series A Notes amounting to ₱690 having a maturity of 7 years from issue date and Series B notes amounting to ₱2,910 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.

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.

Total interest incurred on the above-mentioned long-term loans amounted to ₱3,407, ₱2,164 and ₱1,310 for the years ended 2011, 2010 and 2009, respectively (Note 25). Capitalized interest in 2011 and 2009 amounted to ₱198 and ₱40, respectively (Note 12).

As of December 31, 2011 and 2010, Petron complied with the covenants of its debt agreements.

Movements in debt issue costs follow:

	Note	**2011**	**2010**
Beginning balance		**₱ 648**	₱ 126
Additions		**128**	634
Amortization for the year	*25*	**(174)**	(112)
Ending balance		**₱ 602**	₱ 648

Repayment Schedule

As of December 31, 2011 and 2010, the annual maturities of long-term debt are as follows:

2011

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2012	**₱ 4,296**	**₱172**	**₱ 4,124**
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**
	₱50,470	**₱602**	**₱49,868**

2010

Year	Gross Amount	Debt Issue Costs	Net
2011	₱11,687	₱170	₱11,517
2012	4,260	144	4,116
2013	4,107	119	3,988
2014	8,706	85	8,621
2015	1,778	52	1,726
2016	4,512	42	4,470
2017	20,000	36	19,964
	₱55,050	₱648	₱54,402

18. Asset Retirement Obligation

Movements in the ARO are as follows:

	Note	**2011**	2010
Beginning balance		**₱ 815**	₱541
Additions		**62**	13
Effect of change in discount rate		**140**	248
Accretion for the year	*25*	**71**	46
Settlement	*25*	**(27)**	(18)
Reversal		**—**	(15)
Ending balance		**₱1,061**	₱815

19. Other Noncurrent Liabilities

	Note	**2011**	2010
Cash bonds	*33, 34*	**₱303**	₱275
Cylinder deposits	*33, 34*	**383**	274
Others	*33, 34*	**54**	60
		₱740	₱609

20. Equity

a. On February 27, 2009, the BOD approved an increase of Petron's authorized capital stock from the current ₱10,000 to ₱25,000 (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 Petron'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 Petron's articles of incorporation to reclassify a total of 624,895,503 unissued common shares to preferred shares with a par value of ₱1.00 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 ₱100 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

As of December 31, 2011 and 2010, Petron has 9,375,104,497 (₱1 par value) issued and outstanding common shares.

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 ₱1.00 per common share. As of December 31, 2011 and 2010, the Parent Company has a total of 9,375,104,497 issued and outstanding common shares and 160,360 stockholders.

Preferred Stock

As of December 31, 2011 and 2010, Petron has 100,000,000 (₱1 par value) issued and outstanding preferred shares.

The preferred shares were issued upon listing on the PSE at ₱100 per share. The proceeds from issuance in excess of par value less related transaction costs amounted to ₱9,764, 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 as of December 31, 2011 is 122.

c. Retained Earnings

i. Declaration of Cash Dividends

On February 2, 2011, the BOD declared a cash dividend of ₱2.382 per share which was paid to preferred stockholders on March 7, 2011. Another cash dividend of ₱2.382 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 ₱2.382 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 ₱2.382 per share on December 5, 2011 and another ₱2.382 per share which was paid on March 5, 2012.

For common shares, the BOD approved a cash dividend of ₱0.10 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 ₱2.382 per share which was paid to preferred stockholders on June 7, 2010. Another cash dividend of ₱2.382 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 ₱2.382 per share on December 6, 2010.

For common shares, the BOD approved a cash dividend of ₱0.10 per share to stockholders as of July 30, 2010, which was paid on August 16, 2010.

ii. Appropriation for Capital Projects

On May 11, 2011, the BOD approved the additional appropriation of retained earnings of ₱9,628 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 Refinery Master Plan Phase 2 (RMP-2) which is expected to be completed by 2014. At the same meeting, the BOD likewise approved the capital expense for the acquisition of a Gulfstream aircraft (Note 12).

The BOD of certain subsidiaries approved additional appropriation amounting to ₱51 in 2010 to finance future capital expenditure projects.

On February 27, 2009, the BOD approved a resolution to reverse ₱8,428 of the appropriated retained earnings.

d. The Group's unappropriated retained earnings include its accumulated equity in net earnings of subsidiaries, joint venture and associates amounting to ₱2,482, ₱2,208 and ₱2,035 in 2011, 2010 and 2009, 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.

21. Cost of Goods Sold

This account consists of:

	Note	2011	2010	2009
Inventories	*10*	**₱244,937**	₱203,767	₱156,001
Depreciation and amortization	*24*	**2,207**	2,282	2,505
Personnel expenses	*23*	**684**	555	519
Others	*10, 30*	**2,998**	2,676	2,558
		₱250,826	₱209,280	₱161,583

Distribution or transshipment costs included as part of inventories amounted to ₱4,439, ₱4,161 and ₱3,747 in 2011, 2010 and 2009, respectively.

22. Selling and Administrative Expenses

This account consists of:

	Note	2011	2010	2009
Personnel expenses	*23*	**₱2,499**	₱1,972	₱1,625
Purchased services and utilities		**1,464**	1,311	1,332
Depreciation and amortization	*14, 24*	**1,450**	1,258	1,083
Maintenance and repairs		**700**	551	522
Rent	*28, 30*	**553**	544	479
Impairment loss on trade and other receivables	*4, 9*	**75**	481	58
Materials and office supplies		**562**	397	211
Advertising		**545**	222	222
Taxes and licenses		**181**	205	136
Others	*10*	**267**	362	80
		₱8,296	₱7,303	₱5,748

Selling and administrative expenses include research and development costs amounting to ₱42, ₱43 and ₱10 in 2011, 2010 and 2009, respectively.

23. Personnel Expenses

This account consists of:

	Note	2011	2010	2009
Salaries, wages and other employee costs	*27*	**₱2,705**	₱2,274	₱1,772
Retirement costs—defined benefit plan	*27, 29*	**422**	197	317
Retirement costs—defined contribution plan	*27*	**56**	56	55
		₱3,183	₱2,527	₱2,144

The above amounts are distributed as follows:

	Note	2011	2010	2009
Costs of goods sold	*21*	**₱ 684**	₱ 555	₱ 519
Selling and administrative expenses	*22*	**2,499**	1,972	1,625
		₱3,183	₱2,527	₱2,144

24. Depreciation and Amortization

This account consists of:

	Note	2011	2010	2009
Cost of goods sold				
Property, plant and equipment	*12, 21*	**₱2,207**	₱2,282	₱2,505
Selling and administrative expenses				
Property, plant and equipment	*12*	**1,357**	1,201	1,067
Investment property	*13*	**91**	55	14
Intangible assets	*14*	**2**	2	2
	22	**1,450**	1,258	1,083
		₱3,657	₱3,540	₱3,588

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

This account consists of:

	Note	2011	2010	2009
Interest expense and other financing charges:				
Long-term debt	*17*	**₱3,233**	₱2,052	₱1,282
Short-term loans	*15*	**1,185**	1,368	2,214
Bank charges		**454**	673	649
Amortization of debt issue costs	*17*	**174**	112	28
Accretion on ARO	*18*	**71**	46	60
Product borrowings		**1**	—	13
Others		**6**	46	5
		₱5,124	₱4,297	₱4,251
Interest income:				
Advances to PCERP and cash bond	*14*	**₱ 927**	₱ 471	₱ —
Short-term placements	*6*	**330**	237	92
AFS financial assets		**35**	50	51
Trade receivables		**76**	46	38
Product loaning		**—**	2	7
Cash in banks	*6*	**6**	5	5
Others		**6**	16	12
		₱1,380	₱ 827	₱ 205
Other income (expenses):				
Foreign currency gains (losses)—net	*33*	**₱ (88)**	₱1,742	₱ 146
Marked-to-market gains (losses)	*34*	**205**	(98)	(409)
Rent	*13, 28*	**431**	361	346
Insurance claims		**140**	97	172
Changes in fair value of financial assets at FVPL	*7*	**1**	64	22
Gain on settlement of ARO	*18*	**27**	18	14
Hedging gains (losses)—net		**(591)**	13	461
Others		**43**	(788)	(155)
		₱ 168	₱1,409	₱ 597

The Parent Company recognized its share in the net income of PDSI amounting ₱0.53, ₱0.35 and ₱0.51 in 2011, 2010 and 2009, respectively, and recorded it as part of "Other income (expenses)—others" account.

26. Income Taxes

Deferred tax assets and liabilities are from the following:

	2011	2010
Various allowance, accruals and others	**₱ 840**	₱ 555
Rental	**178**	177
ARO	**192**	154
Net retirement benefits liability	**201**	75
MCIT	**2**	—
Excess of double-declining over straight-line method of depreciation and amortization	**(1,820)**	(1,574)
Capitalized interest, duties and taxes on property, plant and equipment deducted in advance and others	**(830)**	(625)
Inventory differential	**(114)**	(207)
Capitalized taxes and duties on inventories deducted in advance	**(226)**	(175)
Unrealized foreign exchange gains—net	**(218)**	(301)
Unrealized fair value gains on AFS financial assets	**(9)**	(9)
	₱(1,804)	₱(1,930)

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

	2011	2010
Deferred tax assets	**₱ 15**	₱ 28
Deferred tax liabilities	**(1,819)**	(1,958)
	₱(1,804)	₱(1,930)

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.

As of December 31, 2010, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due were all applied.

The components of income tax expense are shown below:

	2011	2010	2009
Current	**₱2,784**	₱ 820	₱ 254
Deferred	**(148)**	1,555	1,238
	₱2,636	₱2,375	₱1,492

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	2011	2010	2009
Statutory income tax rate		**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:				
Income subject to ITH	*35*	**(4.76)**	(6.40)	(2.82)
Interest income subjected to lower final tax and others		**(1.20)**	(0.26)	(0.87)
Nontaxable income		**(0.71)**	(0.33)	(0.64)
Nondeductible expense		**0.14**	0.05	0.24
Nondeductible interest expense		**0.28**	0.23	0.16
Changes in fair value of financial assets at FVPL	*25*	**—**	(0.18)	(0.13)
Excess of optional standard deduction over deductible expenses		**(0.05)**	(0.05)	—
Effective income tax rate		**23.70%**	23.06%	25.94%

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 2011 and 2010.

27. Related Party Disclosures

Transactions with Current Owners/Related Parties

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

b. Purchases relate to purchase of goods and services such as construction, information technology and shipping.

c. 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 ₱4.8. The lease, which commenced on June 1, 2010, is for a period of one year and is subject to yearly extensions.

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

e. The Parent Company advanced certain monies to PCERP for some investment opportunities (Note 14).

The balances and transactions with related parties, not shown elsewhere in the consolidated financial statements, as of and for the years ended December 31 are as follows:

Related Parties	**Relationship With Related Parties**	**Year**	**Revenue from Related Parties**	**Purchases from Related Parties**	**Amounts Owed by Related Parties (Note 9)**	**Amounts Owed to Related Parties (Note 16)**
SMC	Ultimate Parent	**2011**	**₱ 1**	**₱ 76**	**₱ —**	**₱ 20**
		2010	1	29	2	33
Pan Asia Energy Holdings Inc.	Under common control	**2011**	**577**	**—**	**—**	**—**
		2010	8,045	—	1,428	—
San Miguel Brewery Inc.	Under common control	**2011**	**934**	**140**	**111**	**19**
		2010	573	0.60	100	—
San Miguel Yamamura Packaging Corporation	Under common control	**2011**	**708**	**—**	**96**	**—**
		2010	350	—	—	—
SMC Shipping & Lighterage Corporation	Under common control	**2011**	**420**	**858**	**41**	**32**
		2010	304	407	46	13
Ginebra San Miguel, Inc. and Subsidiaries	Under common control	**2011**	**674**	**13**	**147**	**4**
		2010	889	0.30	58	—
San Miguel Energy Corporation	Under common control	**2011**	**146**	**603**	**33**	**52**
		2010	83	—	—	—
San Miguel Yamamura Asia Corporation	Under common control	**2011**	**775**	**—**	**83**	**—**
		2010	40	—	40	—
Challenger Aero Air Corporation	Under common control	**2011**	**30**	**—**	**16**	**—**
		2010	22	2	9	—
Mindanao Corrugated Fibreboard, Inc.	Under common control	**2011**	**43**	**—**	**9**	**—**
		2010	17	—	4	—
San Miguel Purefoods Company, Inc. and Subsidiaries	Under common control	**2011**	**484**	**2**	**90**	**5**
		2010	164	7	36	7
Archen Technologies, Inc.	Under common control	**2011**	**12**	**343**	**—**	**130**
		2010	12	227	2	26
SMPI	Under common control	**2011**	**—**	**418**	**95**	**367**
		2010	—	63	—	5
San Miguel Paper Packaging Corporation	Under common control	**2011**	**—**	**—**	**—**	**—**
		2010	—	—	49	—
Others	Under common control	**2011**	**37**	**90**	**24**	**23**
		2010	12	39	5	6
		2011	**₱ 4,841**	**₱2,543**	**₱ 745**	**₱652**
		2010	₱10,512	₱ 775	₱1,779	₱ 90

Key Management Compensation

Total compensation and benefits of key management personnel included as part of "Personnel Expenses" account in the consolidated statements of income consists of the following (Note 23):

	2011	**2010**	**2009**
Salaries and other short-term employee benefits	**₱459**	₱328	₱262
Retirement benefits—defined contribution plan	**12**	11	9
Retirement benefits—defined benefit plan	**17**	399	234
	₱488	₱738	₱505

28. Operating Lease Commitments

Group as Lessee

The Group entered into commercial leases on certain parcels of land for its refinery and service stations (Notes 22 and 30). These leases have an average life of one to sixteen 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:

	2011	2010	2009
Within one year	**₱ 657**	₱ 738	₱ 596
After one year but not more than five years	**2,423**	2,661	2,207
After five years	**6,730**	8,741	5,744
	₱9,810	₱12,140	₱8,547

Group as Lessor

The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Notes 13 and 25). 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:

	2011	2010	2009
Within one year	**₱279**	₱327	₱231
After one year but not more than five years	**262**	523	240
After five years	**45**	52	79
	₱586	₱902	₱550

29. Retirement Plan

The succeeding tables summarize the components of net retirement benefits cost under a defined benefit retirement plan recognized in the 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, 2011. Valuations are obtained on a periodic basis.

The components of retirement benefits cost recognized in profit or loss in 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Current service cost	**₱ 163**	₱ 165	₱ 161
Interest cost on benefit obligation	**281**	276	331
Expected return on plan assets	**(2,181)**	(312)	(201)
Curtailment loss	**—**	75	26
Amortization of actuarial gain	**2,159**	(7)	—
Net retirement benefits cost	**₱ 422**	₱ 197	₱ 317

The retirement benefits cost 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:

	2011	2010
Present value of defined benefit obligation	**₱ 3,633**	₱ 3,559
Fair value of plan assets	**10,205**	25,163
	(6,572)	(21,604)
Unrecognized actuarial gain	**7,243**	21,853
Net retirement benefits liability recognized	**₱ 671**	₱ 249

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

	2011	2010
Balance at beginning of year	**₱3,559**	₱ 3,446
Interest cost	**281**	276
Current service cost	**163**	165
Benefits paid	**(184)**	(1,109)
Actuarial loss (gain) on obligation	**(186)**	705
Effect of curtailment	**—**	76
Balance at end of year	**₱3,633**	₱ 3,559

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

	2011	2010
Balance at beginning of year	**₱ 25,163**	₱ 3,896
Expected return on plan assets	**2,181**	312
Benefits paid	**(184)**	(1,109)
Actuarial gain (loss)	**(16,955)**	22,064
Balance at end of year	**₱ 10,205**	₱25,163
Actual return (loss) on plan assets	**₱(14,774)**	₱22,376

Plan assets consist of the following:

	2011	2010
Shares of stock	**93%**	36%
Government securities	**4%**	48%
Cash	**1%**	1%
Real estate	**—**	12%
Others	**2%**	3%
	100%	100%

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

	2011	2010	2009
Discount rate	**6.17%**	7.90%	8.00%
Expected rate of return on plan assets	**9.00%**	8.70%	8.00%
Future salary increases	**7.00%**	8.00%	6.00%

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

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	**₱ 3,633**	₱ 3,559	₱3,446	₱3,534	₱3,852
Fair value of plan assets	**10,205**	25,163	3,896	3,832	4,361
Excess in the plan	**(6,572)**	(21,604)	(450)	(298)	(509)
Experience adjustments on plan liabilities	**72**	143	70	(240)	368

30. Significant Agreements

Supply Agreement

The Parent Company has assigned all its rights and obligations to Petron Singapore Trading Pte. Ltd. (as Assignee) to have a term contract to purchase the Parent Company's crude oil requirements from Saudi Arabian American Oil Company ("Saudi Aramco"), based on the latter's standard Far East selling prices. The contract is for a period of one year from October 28, 2008 to October 27, 2009 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of the Parent Company for such purchases are shown as part of "Liabilities for Crude Oil and Petroleum Product Importation" account in the consolidated statements of financial position as of December 31, 2011 and 2010. The contract is extended until October 27, 2012.

Processing License Agreement. The Parent Company had an agreement with Pennzoil-Quaker State International Corporation (Pennzoil) for the exclusive right to manufacture, sell and distribute in the Philippines certain Pennzoil products. It also included the license to use certain Pennzoil trademarks in exchange for the payment of royalty fee based on net sales value. The agreement was not renewed upon its expiration on March 31, 2010.

Royalty expense amounting to ₱0.06 and ₱0.08 in 2010 and 2009, respectively, are included as part of "Cost of Goods Sold—Others" account in the consolidated statements of income (Note 21).

Fuel 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, 2011, 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)	DFO	IFO
March 10, 2011	March 23, 2011	April- June 2011 (with 3 months extension)	9,560	4,833	373,171,155	139,990,351
March 10, 2011	August 26, 2011	April- June 2011 (with 3 months extension)	569	1,207	21,744,058	34,960,989
July 1, 2011	July 6, 2011	July- December 2011	2,821	1,326	120,742,605	48,050,527
July 18, 2011	July 25, 2011	July- December 2011	1,610		70,975,405	
September 5, 2011	September 16, 2011	September- December 2011 (with 3 months extension)	900		35,683,712	
September 5, 2011	September 20, 2011	September- December 2011 (with 3 months extension)	22,913	5,709	980,482,429	196,953,939
September 5, 2011	December 1, 2011	September- December 2011 (with 3 months extension)	2,479	1,114	104,593,744	38,436,950
December 13, 2011	December 14, 2011	December 2011 (with 3 months extension)	234	158	10,152,813	5,734,973

**IFO = Industrial Fuel Oil*

DFO = Diesel Fuel Oil

KL = Kilo Liters

PSALM

Bid Date	Date of Award	Contract Duration	DFO* (in KL*)	IFO* (in KL)	DFO	IFO
January 12, 2011 . . .	January 31, 2011	Power Barge 101 January- December 2011 (with 6 months extension)		14,426		364,821,999
January 12, 2011 . . .	January 31, 2011	Power Barge 102 January- December 2011 (with 6 months extension)		16,525		417,904,030
January 12, 2011 . . .	January 31, 2011	Power Barge 103 January- December 2011 (with 6 months extension)		13,636		344,690,808
January 12, 2011 . . .	January 31, 2011	Malaya Thermal Power Plant January- December 2011 (with 6 months extension)	1,400		45,090,780	
January 12, 2011 . . .	January 31, 2011	Naga Plant Complex January- December 2011 (with 6 months extension)	1,603		51,628,943	
January 12, 2011 . . .	January 31, 2011	Power Barge 101 January- December 2011 (with 6 months extension)	2,246		72,092,782	
January 12, 2011 . . .	January 31, 2011	Power Barge 102 January- December 2011 (with 6 months extension)	3,085		99,023,256	
January 12, 2011 . . .	January 31, 2011	Power Barge 103 January- December 2011 (with 6 months extension)	3,309		108,371,735	
January 12, 2011 . . .	January 31, 2011	Power Barge 104 January- December 2011 (with 6 months extension)	3.226		102,898,754	
January 12, 2011 . . .	January 31, 2011	Southern Power Philippines Corporation January- December 2011 (with 6 months extension)	173		5,747,856	
January 12, 2011 . . .	January 31, 2011	Western Mindanao Power Corporation January- December 2011 (with 6 months extension)	150		4,919,565	
June 17, 2011	July 8, 2011	Power Barge 104 July- December 2011 (with 6 months extension)		14,000		525,387,800
June 17, 2011	July 8, 2011	Southern Power Philippines Corporation July- December 2011 (with 6 months extension)		26,500		933,255,800
June 17, 2011	July 8, 2011	Western Mindanao Power Corporation July- December 2011 (with 6 months extension)		46,500		1,615,089,150

**IFO* = Industrial Fuel Oil*

DFO = Diesel Fuel 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 2011, Petron was awarded to supply a total of 56,278 kilo-liters (KL) worth ₱2,207 (2010-50,226 KL worth ₱1,555) of diesel fuel and 145,934 KL worth ₱4,655 (2010-91,076 KL worth ₱2,515) of bunker fuel.

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 ₱35, ₱40 and ₱52 in 2011, 2010 and 2009, respectively.

Lease Agreement with Philippine National Oil Company (PNOC). On September 30, 2009, NVRC entered into a 25-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 ₱93 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. Prior to this agreement, Petron has an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2011 and 2010, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

31. Basic and Diluted Earnings Per Share

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

	2011	2010	2009
Net income attributable to equity holders of the Parent Company	**₱8,469**	₱7,894	₱4,240
Dividends on preferred shares for the period (a)	**1,191**	715	—
Net income attributable to common shareholders of the Parent Company (b)	**₱7,278**	₱7,179	₱4,240
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)	**₱ 0.78**	₱ 0.77	₱ 0.45

As of December 31, 2011, 2010 and 2009, the Parent Company has no potential dilutive debt or equity instruments.

32. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

	2011	2010	2009
Decrease (increase) in assets:			
Trade receivables	**₱ (3,714)**	₱(1,803)	₱(5,746)
Inventories	**(9,618)**	39	4,964
Other current assets	**(3,925)**	78	(1,094)
Increase (decrease) in liabilities:			
Liabilities for crude oil and petroleum product importation	**2,646**	3,661	(1,353)
Trade and other payables	**851**	1,647	496
	(13,760)	3,622	(2,733)
Additional (reversal of) allowance for impairment of receivables, inventory decline and/or obsolescence and others	**121**	501	(2,169)
	₱(13,639)	₱ 4,123	₱(4,902)

33. 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 Petron 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 Code of Corporate Governance.

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 United States (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.

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:

	2011		2010	
	US Dollar	**Peso Equivalent**	**US Dollar**	**Peso Equivalent**
Assets				
Cash and cash equivalents	**338**	**14,818**	648	28,408
Trade and other receivables	**343**	**15,037**	157	6,883
Other assets	**29**	**1,271**	17	745
	710	**31,126**	822	36,036
Liabilities				
Short-term loans	**—**	**—**	59	2,587
Liabilities for crude oil and petroleum product importation	**509**	**22,314**	278	12,188
Long-term debts (including current maturities)	**356**	**15,607**	355	15,563
Other liabilities	**7**	**307**	9	395
	872	**38,228**	701	30,733
Net foreign currency—denominated monetary assets (liabilities)	**(162)**	**(7,102)**	121	5,303

The Group reported net foreign exchange gains (losses) amounting to (₱88), ₱1,742 and ₱146 in 2011, 2010 and 2009, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 25). 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, 2009	46.20
December 31, 2010	43.84
December 31, 2011	43.84

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, 2011 and 2010:

	₱1 Decrease in the US Dollar Exchange Rate		₱1 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	**₱(319)**	**₱(243)**	**₱ 319**	**₱ 243**
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)**
	₱ 201	**₱ 101**	**₱(201)**	**₱(101)**

	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
2010	**Effect on Income Before Income Tax**	**Effect on Equity**	**Effect on Income Before Income Tax**	**Effect on Equity**
Cash and cash equivalents	₱(642)	₱(455)	₱ 642	₱ 455
Trade and other receivables	(96)	(128)	96	128
Other assets	(1)	(17)	1	17
	(739)	(600)	739	600
Short-term loans	—	59	—	(59)
Liabilities for crude oil and petroleum product importation	278	195	(278)	(195)
Long-term debts (including current maturities)	355	249	(355)	(249)
Other liabilities	7	7	(7)	(7)
	640	510	(640)	(510)
	₱ (99)	₱ (90)	₱ 99	₱ 90

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 money market instruments while maintaining the necessary diversification to avoid concentration of 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 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 ₱168 and ₱180 in 2011 and 2010, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

Interest Rate Risk Table

As at December 31, 2011 and 2010, the terms and maturity profile of the interest-bearing financial instruments, together with its gross undiscounted amounts, are shown in the following tables:

2011	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed rate							
Philippine peso denominated	**₱ 238**	**₱ 84**	**₱ 5,284**	**₱ 84**	**₱ 4,548**	**₱ 23,420**	**₱33,658**
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**		
	₱ 4,296	**₱ 4,644**	**₱ 9,745**	**₱ 2,815**	**₱ 5,550**	**₱ 23,420**	**₱50,470**

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

2010	**<1 Year**	**1-<2 Years**	**2-<3 Years**	**3-<4 Years**	**4-<5 Years**	**>5 Years**	**Total**
Fixed rate							
Philippine peso denominated	₱ 6,963	₱ 202	₱ 48	₱ 5,248	₱ 48	₱ 24,510	₱37,019
Interest rate	6.4% - 9.3%	6.4% - 9.3%	9.3%	8.1% - 9.3%	9.3%	7.0% - 9.3%	
Floating rate							
Philippine peso denominated	1,267	600	600	—	—	—	2,467
Interest rate	net 1M SDA + margin, 3-mo. Mart1/ PDSTF + margin	net 1M SDA + margin	net 1M SDA + margin				
US$ denominated (expressed in Php)	3,459	3,459	3,458	3,458	1,730	—	15,564
Interest rate*	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin	3, 6 mos. Libor + margin		
	₱ 11,689	₱ 4,261	₱ 4,106	₱ 8,706	₱ 1,778	₱ 24,510	₱55,050

**The group reprices every 3 months but has been given an option to reprice every 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	**2011**	**2010**
Cash in bank and cash equivalents (net of cash on hand)	*6*	**₱19,528**	₱40,358
Derivative assets	*7*	**43**	34
Trade and other receivables—net	*9*	**26,605**	24,266
Due from related parties	*14*	**23,787**	22,447
Long-term receivables	*14*	**88**	122
		₱70,051	₱87,227

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) 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, and cash bonds valued at ₱3,925 and ₱2,736 as of December 31, 2011 and 2010, 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, 2011 and 2010 are shown below (Note 9):

	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
December 31, 2011				
Reseller	**₱ 210**	**₱ 40**	**₱ 35**	**₱ 285**
Lubes	**286**	**6**	**25**	**317**
Gasul	**450**	**135**	**180**	**765**
Industrial	**10,390**	**814**	**671**	**11,875**
Others	**4,592**	**627**	**173**	**5,392**
	₱15,928	**₱1,622**	**₱1,084**	**₱18,634**

	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
December 31, 2010				
Reseller	₱ 10	₱ 53	₱ 40	₱ 103
Lubes	281	11	25	317
Gasul	661	172	122	955
Industrial	7,792	774	717	9,283
Others	3,961	134	147	4,242
	₱12,705	₱1,144	₱1,051	₱14,900

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, 2011 and 2010:

	Trade Accounts Receivables per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2011				
Reseller	**₱ 124**	**₱ 135**	**₱ 26**	**₱ 285**
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**
	₱8,590	**₱8,090**	**₱1,954**	**₱18,634**
December 31, 2010				
Reseller	₱ (29)	₱ 107	₱ 26	₱ 104
Lubes	113	159	44	316
Gasul	419	244	292	955
Industrial	2,527	5,711	1,045	9,283
Others	3,640	538	64	4,242
	₱6,670	₱6,759	₱1,471	₱14,900

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, 2011 and 2010.

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	**₱23,823**	**₱23,823**	**₱23,823**	**₱ —**	**₱ —**	**₱ —**
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**

2010	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	₱43,984	₱43,984	₱43,984	₱ —	₱ —	₱ —
Trade and other receivables	24,266	24,266	24,266	—	—	—
Due from related parties	22,447	22,922	907	22,015	—	—
Derivative assets	34	34	34	—	—	—
Financial assets at FVPL	193	193	193	—	—	—
AFS financial assets	1,161	1,256	256	67	933	—
Long-term receivables	122	122	—	20	65	37
Financial liabilities						
Short-term loans	32,457	32,733	32,733	—	—	—
Liabilities for crude oil and petroleum product importation	11,194	11,194	11,194	—	—	—
Accounts payable and accrued expenses (excluding taxes payable)	6,181	6,181	6,181	—	—	—
Derivative liabilities	30	30	30	—	—	—
Long-term debts (including current maturities)	54,402	72,752	15,360	7,198	22,162	28,032
Cash bonds	275	284	219	26	19	20
Cylinder deposits	274	274	—	—	—	274
Other noncurrent liabilities	60	60	—	11	27	22

Commodity Price Risk

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

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from downward price risk and margins of MOPS (Mean of Platts of Singapore)-based sales. Hedging policy (including the use of commodity price swaps, buying of put options, collars and 3-way options) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (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:

	2011	**2010**
Total assets	**₱175,795**	₱161,816
Total liabilities	**116,108**	108,472
Total equity	**59,687**	53,344
Debt to equity ratio	**1.9:1**	2.0:1

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

34. 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:

		2011		**2010**	
	Note	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets (FA):					
Cash and cash equivalents	*6*	**₱23,823**	**₱23,823**	₱43,984	₱43,984
Trade and other receivables	*9*	**26,605**	**26,605**	24,266	24,266
Due from related parties	*14*	**23,787**	**23,787**	22,447	22,447
Long-term receivables	*14*	**88**	**88**	122	122
Loans and receivables		**74,303**	**74,303**	90,819	90,819
AFS financial assets	*8*	**1,036**	**1,036**	1,161	1,161
Financial assets at FVPL	*7*	**194**	**194**	193	193
Derivative assets	*7*	**43**	**43**	34	34
FA at FVPL		**237**	**237**	227	227
Total financial assets		**₱75,576**	**₱75,576**	₱92,207	₱92,207

	Note	2011 Carrying Value	2011 Fair Value	2010 Carrying Value	2010 Fair Value
Financial liabilities (FL):					
Short-term loans	*15*	**₱ 40,593**	**₱ 40,593**	₱32,457	₱32,457
Liabilities for crude oil and petroleum product importation		**13,842**	**13,842**	11,194	11,194
Trade and other payables (excluding specific taxes and other taxes payable)	*16*	**6,600**	**6,600**	6,181	6,181
Long-term debt including current portion	*17*	**49,868**	**49,868**	54,402	54,402
Cash bonds	*19*	**303**	**303**	275	275
Cylinder deposits	*19*	**383**	**383**	274	274
Other noncurrent liabilities	*19*	**54**	**54**	60	60
FL at amortized cost		**111,643**	**111,643**	104,843	104,843
Derivative liabilities		**55**	**55**	30	30
Total financial liabilities		**₱111,698**	**₱111,698**	₱104,873	₱104,873

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 and Noncurrent 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 2011 and 2010 are 6.16% and 5.99%, 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, 2011 and 2010, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$220 and US$15, respectively, and with various maturities in 2011 and 2012. As of December 31, 2011, the net positive fair value of these currency forwards amounted to ₱40.

Commodity Swaps

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2012. 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 1.8 million barrels and 1.5 million barrels for 2011 and 2010, respectively. The estimated net receipts for these transactions amounted to ₱147 and ₱32 for 2011 and 2010, respectively.

Commodity Options

As of December 31, 2011, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 1.34 million barrels.

The call and put options can be exercised at various calculation dates in 2012 with specified quantities on each calculation date. The estimated amount charged to profit or loss on these call and put options as of December 31, 2011 amounted to ₱47.

Outstanding hedge in 2010 with notional quantities of 2.8 million barrels have an actual net receipts of ₱234.

Embedded Derivatives

Embedded foreign currency derivatives exist in certain U.S. 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, 2011 and 2010, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$91 and US$151, 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, 2011 and 2010, the net positive (negative) fair value of these embedded currency forwards amounted to (₱52) and ₱4, respectively.

For the years ended December 31, 2011, 2010 and 2009, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to ₱205, (₱98), and (₱409), respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative transactions in 2011 and 2010 are as follows:

	Note	2011	2010
Fair value at beginning of year		**₱ 4**	₱ 37
Net changes in fair value during the year	*25*	**205**	(98)
Fair value of settled instruments		**(221)**	65
Balance at end of year		**₱ (12)**	₱ 4

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, 2011 and 2010. 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.

2011	**Level 1**	**Level 2**	**Total**
Financial Assets			
FVPL	**₱194**	**₱ —**	**₱ 194**
Derivative assets	**—**	**43**	**43**
AFS financial assets	**—**	**1,036**	**1,036**
Financial Liabilities			
Derivative liabilities	**—**	**(55)**	**(55)**

2010	**Level 1**	**Level 2**	**Total**
Financial Assets			
FVPL	₱193	₱ —	₱ 193
Derivative assets	—	34	34
AFS financial assets	—	1,161	1,161
Financial Liabilities			
Derivative liabilities	—	(30)	(30)

As of December 31, 2011 and 2010, the Group has no financial instruments valued based on Level 3. 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.

35. 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 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.

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.

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.

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

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

g. Exemption from contractor's tax.

Grease Manufacturing Plant

In December 2005, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization of the firm's Grease Manufacturing Plant in Pandacan, Manila. The BOI is extending the following major incentives:

a. ITH for a period of five years without extension or bonus year from March 2006 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a base figure of 845 metric tons of grease product representing Petron's highest attained sales volume prior to rehabilitation.

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 which is equivalent to the difference between the tariff rate and the three percent 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 taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse, provided that: at least 70% of production is exported; such spare parts and supplies are not locally available at reasonable prices; and, all such parts and supplies shall be used only in the bonded manufacturing warehouse of the registered enterprise.

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

g. 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.

Refinery Master Plan Phase 2 (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.

36. 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, 2011, 2010 and 2009.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
2011						
Revenue:						
External sales	**₱272,287**	**₱ —**	**₱ —**	**₱1,669**	**₱ —**	**₱273,956**
Inter-segment sales	**202,170**	**102**	**357**	**—**	**(202,629)**	**—**
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**

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
2010						
Revenue:						
External sales	₱225,072	₱ —	₱ —	₱4,022	₱ —	₱229,094
Inter-segment sales	11,059	139	327	—	(11,525)	—
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

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
2009						
Revenue:						
External sales	₱173,157	₱ —	₱ —	₱3,374	₱ —	₱176,531
Inter-segment sales	2,182	131	194	—	(2,507)	—
Segment results	8,520	101	137	112	330	9,200
Net income	3,982	161	32	104	(20)	4,259
Assets and liabilities:						
Segment assets	110,272	1,966	2,840	1,262	(3,605)	112,735
Segment liabilities	74,862	277	1,981	537	(2,463)	75,194
Other segment information:						
Property, plant and equipment	31,351	—	—	661	2,772	34,784
Depreciation and amortization	3,509	—	—	79	—	3,588

Inter-segment sales transactions amounted to ₱202,629, ₱11,525 and ₱2,507 for the years ended December 31, 2011, 2010 and 2009, respectively.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2011, 2010 and 2009:

	Reseller	Lube	Gasul	Industrial	Others	Total
2011						
Revenue	**₱108,765**	**₱2,531**	**₱19,500**	**₱105,651**	**₱37,509**	**₱273,956**
Property, plant and equipment	**5,189**	**279**	**205**	**78**	**44,695**	**50,446**
Capital expenditures	**303**	**—**	**11**	**—**	**17,854**	**18,168**
2010						
Revenue	92,583	2,104	15,054	90,311	36,079	236,131
Property, plant and equipment	4,524	345	181	43	26,660	31,753
Capital expenditures	169	1	8	2	2,615	2,795
2009						
Revenue	74,954	2,079	12,298	68,438	17,570	175,339
Property, plant and equipment	4,296	427	268	64	26,296	31,351
Capital expenditures	575	573	263	55	(16)	1,450

Geographical Segments

Segment assets by geographical location as well as capital expenditure on property, plant and equipment and on intangible assets by geographical location are not separately disclosed since the total segment assets of the segment located outside the country, Ovincor and PSTPL, is less than 1% of the consolidated assets of all segments as of the years ended 2011, 2010 and 2009.

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2011, 2010 and 2009.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2011						
Revenue						
Local	**₱245,879**	**₱71**	**₱357**	**₱1,668**	**₱ (2,166)**	**₱245,809**
Export/international	**228,579**	**31**	**—**	**—**	**(200,463)**	**28,147**
2010						
Revenue						
Local	206,070	76	327	4,022	(3,296)	207,199
Export/international	30,061	62	—	—	(8,228)	21,895
2009						
Revenue						
Local	162,565	70	194	3,374	(2,507)	163,696
Export/international	12,774	61	—	—	—	12,835

37. Events After the Reporting Date

On January 11, 2012, the Executive Committee approved the Parent Company's investment in the ExxonMobil downstream business in Malaysia. As at March 7, 2012, the related acquisition is not yet completed.

On January 24, 2012, PCERP sold 695,300,000 common shares of the Parent Company through the facilities of the PSE.

On March 7, 2012, the Parent Company's BOD declared cash dividend at ₱0.10 per share, payable on April 24, 2012 to all common shareholders as of April 2, 2012.

Also, on March 7, 2012, the Parent Company's BOD declared cash dividend at ₱2.382 per share for the second and third quarters of 2012, payable on June 5 and September 5, 2012 to all preferred shareholders as of May 18 and August 16, 2012, respectively.

38. Other Matters

a. Petron has unused letters of credit totaling approximately ₱25,452, ₱9,236 and ₱33 as of December 31, 2011, 2010 and 2009, respectively.

b. Tax Credit Certificates Related Cases

In 1998, the Philippine Bureau of Internal Revenue ("BIR") issued a deficiency excise tax assessment against the Parent Company. The assessment relates to the Parent Company's use of ₱659 worth of Tax Credit Certificates ("TCCs") to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to the Parent Company by suppliers as payment for fuel purchases. The Parent Company is contesting the BIR's assessment before the Philippine Court of Tax Appeals ("CTA"). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments-registered companies, the Parent Company is a qualified transferee of the TCCs. Following an unfavorable ruling from the CTA En Banc, Petron filed an appeal to the Supreme Court. A Resolution was issued by the Supreme Court (1st Division) on September 13, 2010 denying with finality Commission of Internal Revenue's motion for reconsideration of the Decision dated July 28, 2010.

In November 1999, the BIR issued a ₱284 assessment against the Parent Company for deficiency excise taxes for the years 1995 to 1997. The assessment results from the cancellation by the Philippine Department of Finance ("DOF") of tax debit memos, the related TCCs and their assignment to the Parent Company. The Parent Company contested the assessment before the CTA. In August 2006, the CTA denied the Parent Company's petition, ordering it to pay the BIR ₱580 representing the ₱284 unpaid deficiency excise taxes from 1995 to 1997, and 20% interest per annum computed from December 4, 1999. In July 2010, the Philippine Supreme Court ("SC') nullified the assessment against the Parent Company and declared the Parent Company as a valid transferee of the TCCs. The BIR filed a motion for reconsideration, which remains pending.

In May 2002, the BIR issued a ₱254 assessment against the Parent Company for deficiency excise taxes for the years 1995 to 1998. The assessment results from the cancellation by the DOF of tax debit memos, the related TCCs and their assignment to the Parent Company. The Parent Company contested the assessment before the CTA. In May 2007, the CTA second division denied the Parent Company's petition, ordering the Parent Company to pay the BIR ₱601 representing the Parent Company's ₱254 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. The Parent Company appealed the decision to the CTA *en banc,* which ruled in favor of the Parent Company, reversing the unfavorable decision of the CTA second division. The BIR is contesting the CTA *en banc* decision before the SC where the case is still pending.

There are duplications in the TCCs subject of the three assessments described above. Excluding these duplications, the aggregate deficiency excise taxes, excluding interest and penalties, resulting from the cancellation of the subject TCCs amount to ₱911.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted City Ordinance No. 8027 ("Ordinance 8027") reclassifying the areas occupied by the oil terminals of the Parent Company, Shell and Chevron from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and 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, Social Justice Society ("SJS") filed a petition with the SC 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 SC rendered a decision (the "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 SC seeking intervention and reconsideration of the March 7 Decision, on the ground that the SC failed to consider supervening events, notably: (i) the passage of Ordinance 8119 which supersedes Ordinance 8027, as well as (ii) the RTC orders preventing the implementation of Ordinance 8027. The Parent Company, Shell, and Chevron also noted the possible ill-effects on the entire country arising from the sudden closure of the oil terminals in Pandacan.

On February 13, 2008, the SC resolved to allow the Parent Company, Shell and Chevron to intervene, but denied their motion for reconsideration. In its February 13 resolution (the "February 13 Resolution"), the Supreme Court also declared Ordinance 8027 valid, dissolved all existing injunctions against the implementation of the Ordinance 8027, and directed the Parent Company, Shell and Chevron to submit their relocation plans to the RTC. The Parent Company, Shell and Chevron have sought reconsideration of the February 13 Resolution. In compliance with the February 13 Resolution, the Parent Company, Shell and Chevron have submitted their relocation plans to the RTC.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 ("Ordinance 8187"), which repealed Ordinance 8027 and Ordinance 8119, and permitted the continued operations of the oil terminals in Pandacan.

In June 2009, petitions were filed with the SC, seeking the nullification of Ordinance 8187 and enjoining its implementation. These petitions are still pending.

d. Oil Spill Incident in Guimaras

On August 11, 2006, M/T Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, capsized 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 M/T 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 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, who are charterers.

e. Bataan Real Property Tax Cases

The Parent Company has three pending real property tax cases with the Province of Bataan, arising from three real property tax assessments. The first is for an assessment made by the Municipal Assessor of Limay, Bataan in 2006 for the amount of ₱86.4 covering the Parent Company's isomerization and gas oil hydrotreater facilities which enjoy, among others, a five-year real property tax exemption under the Oil Deregulation Law per the Board of Investments Certificates of Registration. The second is for an assessment made also in 2006 by the Municipal Assessor of Limay for ₱17 relating to the leased foreshore area on which the pier of the Parent Company's Refinery is located. In 2007, the Bataan Provincial Treasurer issued a Final Notice of Delinquent Real Property Tax requiring the Parent Company to settle the amount of ₱2,168 allegedly in delinquent real property taxes as of September 30, 2007, based on a third assessment made by the Provincial Assessor covering a period of 13 years from 1994 to 2007. The third assessment cited the Parent Company's non-declaration or under-declaration of machineries and equipment in the Refinery for real property tax purposes and its failure to pay the corresponding taxes for the said period.

The Parent Company timely contested the assessments by filing appeals with the Local Board of Assessment Appeals ("LBAA"), and posted the necessary surety bonds to stop collection of the assessed amount.

However, with regard to the third assessment, notwithstanding the appeal to the LBAA and the posting of the surety bond, the Provincial Treasurer, acting on the basis of the Final Notice of Delinquent Real Property Tax relating to the third assessment, proceeded with the publication of the public auction of the assets of the Parent Company, which was set for October 17, 2007. Due to the Provincial Treasurer's refusal to cancel the auction sale, the Parent Company filed a complaint for injunction on October 8, 2007 before the RTC to stop the auction sale. A writ of injunction stopping the public auction until the final resolution of the case was issued by the RTC on November 5, 2007.

A motion to dismiss filed by the Provincial Treasurer on the ground of forum-shopping was denied by the RTC. However, a similar motion based on the same ground of forum shopping was filed by the Provincial Treasurer before the LBAA and the motion was granted by the LBAA in December 2007. On appeal by the Parent Company, the Central Board of Assessment Appeals ("CBAA"), in August 2008, remanded the case to the LBAA for factual determination, effectively granting the Parent Company's appeal and reversing the LBAA's dismissal of the case.

The RTC issued a Decision dated June 25, 2010 upholding Petron's position and declared null and void the demand on Petron for the payment of realty taxes in the amount of ₱1,731 made by the Provincial Assessor of Bataan and the levy of the properties of Petron. The Court issued a Writ of Prohibition permanently prohibiting, preventing and restraining the Provincial Treasurer of Bataan from conducting a public auction of the properties of Petron or selling the same by auction, negotiated sale, or any act of disposition pending the finality of the disposition by the LBAA or CBAA, as the case maybe, on the pending appeal made by Petron from the revised assessment of the Provincial Assessor of Bataan.

f. Other Proceedings

The Parent 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, the Parent Company believes that the final outcome of these other proceedings will not have a material adverse effect on the Parent Company's business, financial condition or results of operations.

g. 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.

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