April 10, 2013

PHILIPPINE STOCK EXCHANGE, INC.
Disclosure Department
3rd Floor, Philippine Stock Exchange Center
Ayala Triangle, Ayala Avenue
Makati City

Attention: **Ms. Janet A. Encarnacion**
Head – Disclosure Department

Gentlemen:

Please see attached the Preliminary Information Statement (SEC Form 20-IS) of Petron Corporation filed with the Securities and Exchange Commission on April 8, 2013.

Very truly yours,

JOEL ANGELO C. CRUZ
VP - General Counsel &
Corporate Secretary

COVERSHEET

					3	1	1	7	1

S. E. C. Registration Number

PETRON
CORPORATION

(Company's Full Name)

SMC HEAD OFFICE COMPLEX 40 SAN
MIGUEL AVE. MANDALUYONG CITY

(Business Adress: No. Street City / Town / Province)

ATTY. JOEL ANGELO C. CRUZ
Contact Person

886-3888
Company Telephone Number

Preliminary Information Statement

1 2 - 1 2
Month Day
Fiscal Year

SEC FORM 20-IS
FORM TYPE

Month Day
Annual Meeting

N/A
Secondary License Type, if Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

N/A
Foreign

To be accomplished by SEC Personnel concerned

Fiscal Numer

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

PETRON

April 8, 2013

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong City

Attention: **Director Justina F. Callangan**
Corporation Finance Department

Re: **Petron Annual Stockholders' Meeting**

Gentlemen:

Please find enclosed the preliminary information statement of Petron Corporation (the "Corporation") for the annual stockholders' meeting scheduled on May 21, 2013, Tuesday, May 21, 2013, Tuesday, at 2:00 p.m. at the Valle Verde Country Club, Capt. Henry P. Javier St., Bgy. Oranbo, Pasig City, Metro Manila. We undertake to submit to the Honorable Commission the audited financial statements of the Company for year-end December 31, 2012 no later than April 15, 2013 and to distribute to the stockholders of the Company the quarterly report of the Company for the first quarter of 2013 during the annual stockholders' meeting.

Very truly yours,

JOEL ANGELO C. CRUZ
VP - General Counsel &
Corporate Secretary

PETRON CORPORATION, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines, PO Box 014 MCPO 0708
Tel.: (632) 886-3888 • Pandacan Terminal, Jesus St., Pandacan, Manila Tel.: (632) 563-8521 • Mandaue Terminal, Looc, Mandaue City, Cebu Tel.: (032) 346-5135 / 344-7341 to 51 • Davao Depot, Km.9 Bo. Pampanga, Davao City Tel.: (082) 234-2185 / 233-0399 • Internet: http://www.petron.com

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

Information Statement Pursuant to Section 20 of the Securities Regulation Code

SEC-CFD
APR 8 2013
BY: TIME: 3:50 PM

1. Check the appropriate box:
   __X__ Preliminary Information Statement
   ____ Definitive Information Statement

2. Name of Registrant as specified in its charter **PETRON CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization **PHILIPPINES**

4. SEC Identification Number **31171**

5. BIR Tax Identification Code **000-168-801**

6. Address of principal office

   SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

   Postal Code 1550

7. Registrant's telephone number, including area code **(632) 886-3888**

8. Date, time and place of the meeting of security holders

Date	-	**May 21, 2013, Tuesday**
Time	-	**2:00 p.m.**
Place	-	**Valle Verde Country Club Capt. Henry P. Javier St., Bgy. Oranbo Pasig City, Metro Manila**

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   April 26, 2013

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares Outstanding
Common Stock	**9,375,104,497 shares**
Preferred Stock	**100,000,000 shares**

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

    Yes X No _______

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

    Philippine Stock Exchange **Common Shares and Preferred shares**

PETRON

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 21, 2013

The annual meeting of the stockholders of Petron Corporation will be held on May 21, 2013, Tuesday, at 2:00 p.m. at the Valle Verde Country Club, Pasig City.

The agenda of the meeting are as follows:

1) Call to Order
2) Report on Attendance and Quorum
3) Review and Approval of Minutes of Previous Annual Stockholders' Meeting
4) Management Report and Submission to Stockholders of Financial Statements for the Year 2012
5) Ratification of All Acts of the Board of Directors and Management During the Year 2012
6) Approval by the Stockholders of the Amendment of Articles of Incorporation (Extension of Corporate Term)
7) Appointment of Independent External Auditor
8) Election of the Board of Directors for the Ensuing Term
9) Other Matters
10) Adjournment

The minutes of the 2012 annual stockholders' meeting will be available upon registration on the day of the meeting.

The deadline for submission of proxies is on May 6, 2013. For a corporation, its proxy must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on May 14, 2013 at 2:00 p.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 10:00 a.m. and the registration booths will be closed promptly at 2:00 p.m.

JOEL ANGELO C. CRUZ
VP - General Counsel &
Corporate Secretary

INFORMATION STATEMENT

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

However, if you cannot attend and you wish to send a representative/proxy, please send your proxy letter to the Office of the Corporate Secretary of the Petron Corporation ("Petron" or the "Company") on or before May 7, 2013, a sample of which is attached to this report. On the day of the annual stockholders' meeting, May 21, 2013, your representative should bring the Stockholder's Identification Slip, any valid proof of identification (*e.g.*, passport, driver's license, company I.D., or TIN card) and the proxy letter.

Date, Time and Place of Annual Meeting

The annual stockholders' meeting has the following details (the "Annual Stockholders' Meeting"):

Date	-	May 21, 2013, Tuesday
Time	-	2:00 p.m.
Place	-	Valle Verde Country Club Capt. Henry P. Javier St., Bgy. Oranbo Pasig City, Metro Manila

The principal office of the Company is at the SMC Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City.

Dissenters' Right of Appraisal

As provided in Section 42 and Title X of the Corporation Code of the Philippines (the "Corporation Code"), a dissenting stockholder may demand payment of the fair value of his shares in the exercise of his appraisal right in the following instances:

1) when there is a change or restriction in the rights of any stockholder or class of shares;
2) when the corporation authorizes preferences in any respect superior to those of outstanding shares of any class;
3) when there is an extension or shortening of the term of corporate existence;
4) in case of a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets;
5) in case of a merger or consolidation; and
6) in the event of an investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation is organized.

Section 82 of the Corporation Code provides the following procedure on how the appraisal right may be exercised by any stockholder who shall have voted against a proposed corporation action on any of the above instances:

1) A dissenting stockholder files a written demand within 30 days after the date on which the vote was taken. Failure to file the demand within the 30-day period constitutes a waiver of the appraisal right. Within 10 days from demand, the dissenting stockholder shall submit the stock certificates to the corporation for notation that such shares are dissenting shares. From the time of demand for payment until either abandonment of the corporate action or purchase of

the shares by the corporation, all rights accruing to the shares (including voting and dividend rights) shall be suspended, except the stockholders' right to receive payment of the fair value of his shares.

2) If corporate action is implemented, the corporation pays the stockholder the fair value of his shares upon surrender of the certificate/s of stock. Fair value is the value of shares on the day prior to the date on which the vote was taken, excluding appreciation or depreciation in anticipation of such corporate action.

3) If the fair value is not determined within 60 days from date of action, it will be determined by three (3) disinterested persons (one chosen by the stockholder, another chosen by the corporation, and the last one chosen by both). The findings of a majority of the said appraisers will be final and their award will be paid by the corporation within 30 days after such award is made. Upon such payment, the stockholder shall forthwith transfer his shares to the corporation. No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings.

4) If the stockholder is not paid within 30 days from such award, his voting and dividend rights shall be immediately restored.

The proposal to extend the corporate term of the Company to be presented for the ratification of the stockholders at the Annual Stockholders' Meeting entitles a dissenting stockholder to exercise his appraisal rights under the conditions provided in the Corporation Code.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

There is no matter to be acted upon in which any of the current directors and executive officers and those who will be nominated as directors during the meeting is involved or had a direct, indirect, or substantial interest, other than election to office. Likewise, no director has informed the Company in writing of his opposition to any matter to be acted upon.

Voting Securities and Principal Holders Thereof

As of March 31, 2013, the total number of outstanding shares of the Company was comprised of 9,375,104,497 common shares and 100,000,000 preferred shares, each with a par value of ₱1.00. Each common share is entitled to one vote. Preferred shareholders have no voting rights except under instances provided under the Corporation Code. The three (3) principal common shareholders of the Company are SEA Refinery Corporation ("SRC") (50.10%), San Miguel Corporation ("SMC") (18.16%), and the Petron Corporation Employees' Retirement Plan ("PCERP") (14.79%).

All stockholders of record as of April 12, 2013 are entitled to notice and vote at the annual stockholders' meeting.

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

Security Ownership of Certain Record and Beneficial Owners and Management

The security ownership of certain record and beneficial owners of more than 5% of the common shares of the Company as of March 31, 2013 is as follows:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percentage of Ownership
Common Shares	**SEA Refinery Corporation** 19/F Liberty Center Dela Costa St., Salcedo Village, Makati City Major Stockholder	SEA Refinery Corporation	Filipino	4,696,885,564	50.10%
Common Shares	**San Miguel Corporation** SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Major Stockholder	San Miguel Corporation	Filipino	1,702,870,560	18.16%
Common Shares	**Petron Corporation Employees' Retirement Plan** SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City Major Stockholder	Petron Corporation Employees' Retirement Plan	Filipino	1,386,156,097	14.79%
Common Shares	**PCD Nominee Corporation** (Filipino) 37th Floor Tower 1 The Enterprise Center 6766 Ayala Avenue corner Paseo de Roxas, Makati City Major Stockholder	PCD Nominee Corporation	Filipino	791,629,832	8.44%*

*The Company has no beneficial owner under the PCD Nominee Corporation that holds more than 5% shareholdings.

The security ownership of directors and executive officers as of March 31, 2013 is as follows:

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (D) or Indirect (ID)	Percentage of Ownership
Directors					
Common	Ramon S. Ang	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Eric O. Recto	Filipino	1	D	0.00%
Preferred			300,000	I	0.00%
Common	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Preferred			-	-	N.A.
Common	Eduardo M. Cojuangco, Jr.	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Estelito P. Mendoza	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Bernardino R. Abes	Filipino	1	D	0.00%
Preferred			-	-	N.A.
Common	Roberto V. Ongpin	Filipino	1	D	0.00%
Preferred			-	-	N.A.
Common	Ron W. Haddock	American	1	D	0.00%
Preferred			-	-	N.A.
Common	Aurora T. Calderon	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Mirzan Mahathir	Malaysian	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Romela M. Bengzon	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Virgilio S. Jacinto	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Nelly Favis-Villafuerte	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Reynaldo G. David	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.
Common	Artemio V. Panganiban	Filipino	1,000	D	0.00%
Preferred			-	-	N.A.

Title of Class	Name of Record Owner	Citizenship	Amount and Nature of Beneficial Ownership	Direct (d) or Indirect (I)	Percentage of Ownership
Executive Officers					
Common	Emmanuel E. Eraña	Filipino	-	-	N.A.
Preferred			20,000	I	0.00%
Common	Freddie P. Yumang	Filipino	-	-	N.A.
Preferred			10,000	I	0.00%
Common	Rowena O. Cortez	Filipino	8,580	D	0.00%
Preferred			1,000	I	0.00%
Common	Susan Y. Yu	Filipino	-	-	N.A.
Preferred			53,000	I	0.00%
Common	Archie B. Gupalor	Filipino	3,000	D	0.00%
Preferred			-	-	N.A.
Common	Albertito S. Sarte	Filipino	-	-	N.A.
Preferred			20,000	I	0.00%
Common	Efren P. Gabrillo	Filipino	8,001	D	0.00%
Preferred			1,500	I	0.00%
Common	Joel Angelo C. Cruz	Filipino	-	-	N.A.
Preferred			-	-	N.A.
Directors and Executive Officers as a Group		Common	**34,585**		**0.00%**
		Preferred	**405,500**		**0.00%**

As of March 31, 2013, the directors and executive officers of the Company owned 34,585 common shares and 405,500 preferred shares. None of the directors and executive officers of the Company owns 5% or more of the outstanding capital stock of the Company.

Voting Trust Holders of 5% or more

The Company is not aware of any person holding 5% or more of the Company's outstanding voting shares under a voting trust agreement.

Changes in Control

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

Directors and Executive Officers

Listed below are the incumbent directors and officers of the Company with their respective ages, citizenships, and current and past positions held and business experience for the past five (5) years until the date of this Information Statement.

A. Directors

The following are the incumbent directors of the Company:

Name	Period Served
Ramon S. Ang	January 8, 2009- present
Eric O. Recto	July 31, 2008 - present
Lubin B. Nepomuceno	February 19, 2013 - present
Eduardo M. Cojuangco, Jr.	January 8, 2009-present
Estelito P. Mendoza	January 8, 2008-present
Bernardino R. Abes	July 31, 2001- present
Roberto V. Ongpin	July 31, 2008-present
Ron W. Haddock	December 2, 2008-present
Aurora T. Calderon	August 13, 2010-present
Mirzan Mahathir	August 13, 2010-present
Romela M. Bengzon	August 13, 2010-present
Virgilio S. Jacinto	August 13, 2010-present
Nelly Favis Villafuerte	December 1, 2011-present
Reynaldo G. David (Independent Director)	May 12, 2009-present
Artemio V. Panganiban (Independent Director)	October 21, 2010-present

Set out below are the profiles of the incumbent directors of the Company.

Ramon S. Ang, Filipino, 59 years old, has served as the Chairman, the Chief Executive Officer and an Executive 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 Petron Malaysia Refining & Marketing Berhad ("PMRMB"), Las Lucas Construction and Development Corporation ("LLCDC"), New Ventures Realty Corporation ("NVRC"), and SEA Refinery Corporation ("SRC"); Chairman and Chief Executive Officer of Petron Marketing Corporation ("PMC") and Petron Freeport Corporation ("PFC"); Chairman and President of Mariveles Landco Corporation, Petrochemical Asia (HK) Ltd. ("PAHL"), Philippine Polypropylene Inc. ("PPI") and Robinson International Holdings Ltd.; Director of Petron Fuel International Sdn. Bhd. ("PFISB"), Petron Oil (M) Sdn. Bhd. ("POM"), Petron Oil & Gas Mauritius Ltd. and Petron Oil & Gas International Sdn Bhd.; Vice Chairman, President and Chief Operating Officer of San Miguel Corporation ("SMC"); President and Chief Operating Officer of PAL and PAL Holdings, Inc. ("PAL Holdings"); Vice Chairman of Manila Electric Company ("MERALCO"); Chairman of San Miguel Brewery Inc. ("SMB"), 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. ("Liberty Telecoms"), 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. ("SMPI"), 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. ("SMPFC"); Director of other subsidiaries and affiliates of SMC in the Philippines and the Southeast Asia Region; and an Independent Director of Philweb Corporation ("Philweb"). Of the companies in which Mr. Ang currently holds directorships, SMC, PAL Holdings, MERALCO, SMB, Liberty Telecoms, SMPI, GSMI, SMPFC and Philweb are also listed with the PSE. Previously, Mr. Ang was the Chief Executive Officer of the Paper Industries Corporation of the Philippines and Executive Managing Director of Northern Cement Corporation, Aquacor Food Marketing, Inc., Marketing Investors Inc., PCY Oil Mills, Metroplex Commodities, Southern Island Oil Mills and Indophil Oil Corporation. Mr. Ang has a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University.

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 Insurance Corporation ("Petrogen") and Overseas Ventures Insurance Corporation Ltd. ("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 ("PBCom"); 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). Of the companies in which Mr. Recto currently holds directorships, MERALCO, SMC, PBCom, Philweb, ATOK, Alphaland and ISM are also listed with the PSE. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines and a Masters degree in Business Administration from the Johnson School, Cornell University.

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 SMPFC; 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. Of the companies in which Mr. Cojuangco currently holds directorships, SMC, GSMI and SMPFC are also listed with the PSE. He attended the College of Agriculture at the University of the Philippines - Los Baños and the California Polytechnic College in San Luis Obispo, U.S.A. and was conferred a post graduate degree in Economics, *honoris causa*, from the University of Mindanao, a post graduate degree in Agri-Business, *honoris causa*, from the Tarlac College of Agriculture, a post graduate degree in Humanities, *honoris causa*, from the University of Negros Occidental-Recoletos, and a post graduate degree in Humanities, *honoris causa*, from the Tarlac State University.

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 Paper Packaging Corporation 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. Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and Masters Degree in Business Administration from the De La Salle University. He also attended Advanced Management Program at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

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 the Audit Committee. He holds the following positions, among others: Head of Estelito P. Mendoza and Associates; and Director of SMC, MERALCO, Philippine National Bank ("PNB") 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 was also a Professional Lecturer of law at the University of the Philippines. Of the companies in which Atty. Mendoza currently holds directorships, SMC, MERALCO and PNB are also listed with the PSE. Atty. Mendoza took his pre-law course and Bachelor of Laws degree at the University of the Philippines. He also holds a Master of Laws degree from the Harvard Law School.

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). Of the companies in which Mr. Ongpin currently holds directorships, Philweb, ISM, Alphaland, ATOK, SMC and GSMI are also listed with the PSE. Mr. Ongpin holds a Bachelor of Science in Business Administration, *cum laude*, from the Ateneo de Manila University. He is a certified public accountant and has a Master's degree in Business Administration from the Harvard Business School.

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. Mr. Abes graduated from the University of Santo Tomas with a Bachelor of Laws degree.

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). A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East in 1973 with a degree in Business Administration major in Accounting and earned her Master's degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

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). He graduated with a Bachelor of Science (Honours) degree in Computer Science from Brighton Polytechnic, United Kingdom and obtained his Masters in Business Administration from the Wharton Business School, University of Pennsylvania, USA.

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. A Political Science graduate of the University of the Philippines in 1980 (with honors), she obtained her Bachelor of Laws from the Ateneo de Manila University in 1985.

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). Of the companies in which Atty. Jacinto currently holds directorships, SMB is also listed with the PSE. Atty. Jacinto is an Associate Professor of Law at the University of the Philippines. He obtained his law degree from the University of the Philippines (*cum laude*) where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds Master of Laws degree from Harvard University.

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.; and member of the boards of Alon Energy USA and Trinity Industries, Inc. Mr. Haddock was formerly Honorary Consul of Belgium in Dallas, Texas. He also served as Chairman of Safety-Kleen Systems; 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. He holds a degree in Mechanical Engineering from Purdue University.

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). Atty. 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). She holds a Masters degree in Business Management from the Asian Institute of Management ("AIM") and was a professor of international law/trade/marketing at the graduate schools of AIM, Ateneo Graduate School of Business and De La Salle Graduate School of

Business and Economics. Atty. Villafuerte obtained her Associate in Arts and law degrees from the University of the Philippines and ranked in the top ten in the bar examinations.

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 the 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: Independent director of ISM and ATOK, 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). A TOYM Awardee for Offshore Banking in 1977, he was also awarded by the Association of Development Financing Institutions in Asia & the Pacific as the Outstanding Chief Executive Officer in 2007. A certified public accountant since 1964, he graduated from the De La Salle University with a Liberal Arts degree in Commerce in 1963 and has attended the Advance Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005.

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, Inc., GMA Holdings, Inc. 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). Of the companies in which Justice Panganiban currently holds directorships, MERALCO, Bank of the Philippine Islands, First Philippine Holdings Corp., Metro Pacific Investment Corp., Robinsons Land Corp., GMA Network, Inc., Asian Terminals, Inc. and Jollibee Foods Corporation are also listed with the PSE. He is an author of several books and has received various awards for his numerous accomplishments, most notably the "Renaissance Jurist of the 21st Century" conferred by the Supreme Court in 2006 and the "Outstanding Manilan" for 1991 by the City of Manila. Justice Panganiban earned his Bachelor of Laws degree, *cum laude*, from the Far Eastern University in 1960 and placed sixth in the bar exam that same year.

The incumbent independent directors of the Company have certified that they possess all qualifications and none of the disqualifications provided under the Securities Regulation Code (the "Code"). The certifications of the incumbent independent directors are attached hereto as Annexes A-1 and A-2.

The following have been endorsed for election as directors during the Annual Stockholders' Meeting:

- Ramon S. Ang
- Eric O. Recto
- Lubin B. Nepomuceno
- Eduardo M. Cojuangco, Jr.
- Estelito P. Mendoza
- Bernardino R. Abes
- Roberto V. Ongpin
- Ron W. Haddock
- Aurora T. Calderon
- Mirzan Mahathir
- Romela M. Bengzon
- Virgilio S. Jacinto
- Nelly Favis-Villafuerte

The final list of nominees for independent directors names the following:

- Reynaldo G. David
- Artemio V. Panganiban

The Nomination Committee created by the Board of Directors pursuant to the Corporate Governance Manual of the Company (the "CG Manual"), at its meeting held on March 18, 2013, endorsed the above nominees for election as directors at the Annual Stockholders' Meeting. The Chairman of the Committee is Mr. Reynaldo G. David and the other member is Atty. Estelito P. Mendoza. The third member of the Nomination Committee will be appointed in 2013 following the resignation of Mr. Eric O. Recto as member on February 19, 2013. Atty. Virgilio S. Jacinto acts as the advisor to the Nomination Committee.

Mr. David was nominated by Mr. Danilo T. Toralba while former Supreme Court Chief Justice Panganiban was nominated by Ms. Sylvia E. Reyes. The persons nominating the independent directors are not related to any of the nominees.

The procedure and selection of the independent directors were made in accordance with Section 38 of the Code and the Company's by-laws (the "Company's By-laws"). In compliance with the provisions of Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code (the "Amended SRC Rules"), the Company's By-Laws were amended upon the approval by the Securities and Exchange Commission (the "SEC") on March 27, 2003 and further amended pursuant to the approval by the SEC on November 29, 2011.

The directors elected at the annual meeting will serve for a term of one year or until their successors shall have been elected and qualified, subject to the provisions of the Company's By- Laws.

B. Executive Officers

The following are the current key executive officers of the Company:

Name	Position	Date of Election
Ramon S. Ang	Chairman and Chief Executive Officer	January 2009-present
Lubin B. Nepomuceno	President	February 2013 -present
Emmanuel E. Eraña	Senior Vice President and Chief Finance Officer	September 2009-present
Susan Y. Yu	Vice President - Procurement	September 2009-present
Ma. Rowena Cortez	Vice President - Supply	September 2009-present
Albertito S. Sarte	Vice President - Treasurers and Treasurer	September 2009-present
Freddie P. Yumang	Vice President - Refinery	September 2009-present
Archie B. Gupalor	Vice President - National Sales	March 2012-present
Efren P. Gabrillo	Vice President - Controllers and Controller	April 2010-present
Joel Angelo C. Cruz	Vice President - General Counsel & Corporate Secretary and Compliance Officer	March 2010-present

Set out below are the profiles of the executive officers of the Company.

Emmanuel E. Eraña, Filipino, 52 years old, has served as the Senior Vice President and Chief Finance Officer of the Company since January 2010. 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 served the following positions in the San Miguel Group: as the Vice President and Chief Information Officer 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 SMPFC (July 2002-May 2005), and Finance Officer (January 2001-June 2002), Finance and Management Services Officer, San Miguel Food Group (2000-2001). Mr. Eraña has a Bachelor of Science degree in Accounting from the Colegio de San Juan de Letran.

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 Petron Bataan Refinery. Mr. Yumang is currently a director of the National Association of Mapua Alumni and was formerly National Director of the Philippine Society for Mechanical Engineers (2006-2007). He is a Mechanical Engineering graduate of the Mapua Institute of Technology and has units Master's in Business Administration from De La Salle University. He also attended the Basic Management and Management Development Programs of the AIM in 1992 and 2002, respectively, in which he received separate awards for superior performance.

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. She holds a Bachelor of Science in Industrial Engineering and a Master's degree in Business Administration from the University of the Philippines. She also attended the Finance Course at the AIM. She has attended local and foreign trainings and seminars on management, supply chain, petroleum and petrochemicals, including the prestigious Energy Course at the University of Oxford in Oxfordshire, UK in 2008.

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). She holds a commerce degree in Business Management from the De La Salle University and a Master's degree in Business Administration from the Ateneo de Manila University, for which she was awarded a gold medal for academic excellence.

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 served as Assistant Vice President for SMC International Treasury until June 2009. He graduated from the Ateneo de Manila University in 1987 with a Bachelor of Science degree in Business Management and has attended the Management Development Program of the AIM in 1995.

Archie B. Gupalor, Filipino, 45 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 1991. 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. beginning 2009. He earned his Bachelor of Science degree in Industrial Psychology at the University of San Carlos and has attended several programs here and abroad.

Efren P. Gabrillo, Filipino, 57 years old, has served as the Vice President for Controllers of the Company since July 2012. 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 Assistant Vice President for Controllers (June 2010-June 2012), 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. A certified public accountant, Mr. Gabrillo is a member of the Philippine Institute of Certified Public Accountants and the Institute of Internal Auditors Philippines. He is a graduate of Bachelor of Science in Commerce, major in Accounting, from the De La Salle University. He also completed the Management Development Program of the AIM in October 2003 and has attended numerous trainings here and abroad.

Joel Angelo C. Cruz, Filipino, 52 years old, has served as the Vice President of the Office of the General Counsel since March 2013 and the 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. Atty. Cruz was formerly the Assistant Corporate Secretary and Legal Counsel of the Company, and Assistant Corporate Secretary of all the Company's subsidiaries, an Associate of Del Rosario & Del Rosario Law Offices (1986) and Brilliantes Nachura Navarro & Arcilla Law Offices (1987-1989). He is a member of the Integrated Bar of the

Philippines. Atty. Cruz holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Bachelor of Laws from San Beda College.

Identify Significant Employees

The Company has no significant employee or personnel who is not an executive officer but is expected to make a significant contribution to the business.

Family Relationship

Mr. Eric O. Recto, Vice Chairman and a director of the Company, is the nephew of Mr. Roberto V. Ongpin, another director of the Company.

Involvement in Certain Legal Proceedings

The Company is not aware that any one of the incumbent directors and executive officers and persons nominated to become a director and executive officer has been the subject of a bankruptcy petition or a conviction by final judgment in a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses, or has been by judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities for the past five (5) years until the date of this Information Statement.

Certain Relationships and Related Transactions

The major stockholders of the Company are as follows:

- SEA Refinery Corporation - 50.10%
- San Miguel Corporation - 18.16%
- Petron Corporation Employees' Retirement Plan - 14.79%

The basis of control is the number of the percentage of voting shares held by each.

The Company has no transactions or proposed transactions with any of its directors or officers.

Compensation of Executive Officers and Directors

The aggregate compensation paid or estimated to be paid to the executive officers and directors of the Company during the periods indicated below is as follows:

(a) Name & Principal Position		(b) Year	(c) Salary (in Peso)	(d) Bonus (in Peso)	(e) Other Annual Compensation
Ramon S. Ang Eric O. Recto Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang	Chairman Vice Chairman (eff 02/19/13) President (eff 02/19/13) SVP / Chief Finance Officer Vice President - Refinery	2013 (est)	78.73	13.12	-
Ramon S. Ang Eric O. Recto Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang	Chairman President SVP / General Manager SVP / Chief Finance Officer Vice President - Refinery	2012	76.01	39.22	-
Ramon S. Ang Eric O. Recto Lubin B. Nepomuceno Emmanuel E. Eraña Freddie P. Yumang	Chairman President SVP / General Manager SVP / Chief Finance Officer Vice President - Refinery	2011	67.58	44.90	-
All Other Officers & Directors as a Group Unnamed		2013 (est)	47.46	5.43	-
		2012	38.66	18.81	-
		2011	44.00	15.43	-

Mr. Lubin B. Nepomuceno replaced Mr. Eric O. Recto as President on February 19, 2013. Mr. Eric O. Recto was elected Vice Chairman on the same date.

The Compensation Committee of the Company is composed of Mr. Ramon S. Ang as the non-voting Chairman and Messrs. Lubin B. Nepomuceno, Roberto V. Ongpin and Reynaldo G. David and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acts as advisor to the Compensation Committee.

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 until their successors shall have been duly elected and qualified pursuant to the Company's By-Laws. Any director elected in the interim will serve for the remaining term until the next annual meeting of the stockholders.

Warrants or Options

There are no warrants or options held by directors or officers.

Independent External Auditor

The Company's independent external auditor for the last fiscal year was Manabat Sanagustin Co. & CPAs/KPMG ("KPMG"). Mr. Ador C. Mejia is the engagement partner assigned by KPMG to lead the audit of the Company's financial statements. The Board of Directors, upon the endorsement of the Audit Committee of the Company, nominated KPMG as the independent external auditor of the Company for fiscal year 2012 and the stockholders approved the nomination at the annual stockholders' meeting held on May 15, 2012. KPMG has been the external auditor of the Company since 2010. As such, the Company is not subject to the rule on rotation for the signing partner every five (5) years under the Amended SRC Rules in respect of its engagement of KPMG.

The Audit Committee of the Company is composed of Mr. Reynaldo G. David as the Chairman and Messrs. Estelito P. Mendoza, Artemio V. Panganiban, and Ms. Aurora T. Calderon as members. Mr. Ferdinand K. Constantino acts as advisor to the Audit Committee. A fifth member of the Audit Committee will be appointed in 2013 following the resignation of Mr. Constantino on February 19, 2103.

Duly authorized representatives of KPMG will be present at the Annual Stockholders' Meeting to respond to appropriate questions concerning the 2012 financial statements of the Company. KPMG auditors will also be given the opportunity to make a representation or statement in case they decide to do so.

Issuance and Exchange of Shares

Preferred shares of the Company may be issued from time to time in one or more series as may be determined by the Board of Directors or the Executive Committee (when so delegated to it by the Board of Directors), which was likewise authorized to establish and designate each particular series of preferred shares, to fix the number of shares to be included in each of such series, and to determine the dividend rate, issue price and other features as well as other terms and conditions for each such series of shares. Preferred shares may or may not be cumulative, participating or redeemable as may likewise be determined by the Board of Directors or the Executive Committee when so delegated to it by the Board of Directors.

On October 21, 2009, an amendment to the Company's Articles of Incorporation was approved by the Board of Directors to reclassify a total of 624,895,503 unissued common shares with a par value of ₱1.00 per share to 624,895,503 non-voting and non-convertible preferred shares with a par value of ₱1.00 per share and which shall have preference over common shares in case of liquidation or dissolution of the Company. The SEC approved on February 12, 2010 the amendment of the Company's Articles of Incorporation (the "Company's Articles") increasing its capital stock through the issuance of preferred shares. Similarly, the Philippine Stock Exchange (the "PSE") also approved the issuance of 100,000,000 preferred shares, which were offered to the public from February 15 to February 26, 2010. The preferred shares were listed at the PSE on March 5, 2010. Since the listing on such date, cash dividends have been paid out in March, June, September, and December of last year.

Action with Respect to Reports

<u>2012</u>

At the annual stockholders' meeting held on May 15, 2012, the Management reported on the performance of the Company in 2011 which closed with a net income of ₱8.5 billion as earlier disclosed to the SEC and the PSE in March 2012. The following matters were presented to, and approved by, the stockholders:

1. Review and approval of the minutes of the 2011 annual stockholders' meeting;
2. Presentation of Management's Report and submission of the 2011 audited financial statements;
3. Ratification of all acts of the Board of Directors and Management in 2011;
4. Appointment of independent external auditor; and
5. Election of the Board of Directors for 2012-2013.

All the actions of the Management and the Board of Directors in 2012 were done in accordance with the general resolutions of the Board of Directors which identify the corporate acts and transactions of the Company, the officer(s) or approving authority(ies) for corporate transactions, and the corresponding approval (amount) limit of such officer(s)/approving authority(ies) and/or the other more specific resolutions of the Board of Directors and the Executive Committee.

Among the significant actions undertaken in 2012 which were endorsed by the Management and approved by the Board of Directors (or the Executive Committee) are as follows:

1. Acquisition of 100% of Exxon Mobil Malaysia Sdn Bhd and Exxon Mobil Borneo Sdn Bhd and 65% equity interest in Esso Malaysia Berhad, a company listed on the main board of *Bursa Malaysia*;
2. Entry into a US485 million term facility to finance the capital expenditure requirements of the Refinery Master Plan Phase 2 ("RMP-2");
3. Approval of changes to the charter of the Audit Committee to make the charter compliant with Memorandum Circular No. 4, Series of 2012 of the SEC on the *Guidelines of the Assessment of the Performance of Audit Committees of Companies Listed on the Philippine Stock Exchange;*
4. Approval of the amendment of the Company's Articles to extend the corporate term of the Company and the presentation of the proposal at the Annual Stockholders' Meeting for ratification by the stockholders;
5. Approval of items for the 2012 stockholders' meeting such as the date of meeting on May 15, 2012, the record date of April 2, 2012, the agenda of the meeting, and the endorsement of nominees for directors, including the final list of candidates for independent directors;
6. Appointments to the Executive, Nomination, Compensation and Audit Committees of the Company; and
7. Election of directors/executive officers.

2013

At the Annual Stockholders' Meeting scheduled on May 21, 2013, the Management will report on the 2012 performance of the Company which closed with a net income of ₱2.3 billion. In its meeting held on March 18, 2013, the Board of Directors approved the following items to be taken up at the Annual Stockholders' Meeting:

1. Review and approval of the minutes of the 2012 annual stockholders' meeting;
2. Presentation of Management's Report and submission of the 2012 audited financial statements;
3. Ratification of all acts of the Board of Directors and Management in 2012;
4. Approval of the amendment of the articles of incorporation of the Company for the extension of its corporate term;
5. Appointment of independent external auditor; and
6. Election of the Board of Directors for 2013-2014.

Amendment of the Company's Articles

The Company was incorporated on December 22, 1966. Its 50-year corporate term will thus expire in December 2016. At its meeting held on November 12, 2012, the Board of Directors approved the extension of the corporate term of the Company for another 50 years, the relevant amendment of the Company's Articles, and the presentation of the proposed extension of corporate term for ratification by the stockholders at the Annual Stockholder's Meeting. The proposed extension of the corporate term of the Company three (3) years prior to the expiry of the original corporate term is allowed under the Corporation Code.

The proposed extension of the corporate term of the Company requires the amendment of the Company's Articles. Article Fourth of the Company's Articles is proposed to be amended to read as follows:

> **"FOURTH: - The initial term for which the Corporation is to exist is fifty (50) years from and after the date of incorporation, which term is extended for another fifty (50) years from and after the 22nd of December 2016."**

All qualified stockholders of the Company (including the holders of the non-voting preferred shares of the Company) will be entitled to vote on the amendment of the Company's Articles as described above to extend the corporate term of the Company. The vote of at least two-thirds (2/3) of the outstanding capital stock of the Company is required to pass the proposal.

Voting Procedure

A simple majority vote of the stockholders, where a quorum is present at the Annual Stockholders' Meeting scheduled on May 21, 2013, will be needed for the approval of the minutes of the previous stockholders' meeting, the ratification of all acts of the Board of Directors and Management in 2012, and the appointment of the independent external auditor of the Company for 2013.

In the election of directors, the 15 nominees who get the highest votes shall be deemed duly elected as directors.

The vote of at least two-thirds (2/3) of the outstanding capital stock shall be necessary to ratify the approval of the Board of Directors of the extension of the corporate term of the Company and the requisite amendment of the Company's Articles.

As provided in the Company's By-Laws, if at any meeting of the stockholders a vote by ballot shall be taken, a voting committee shall be created to adopt its own rules to govern the voting and take charge of the voting proceedings and the preparation and distribution of the ballots. Each member of the voting committee, who need not be stockholders, is required to subscribe to an oath to faithfully execute his/her duties as an inspector of votes with strict impartiality and according the best of his/her ability.

The external auditor of the Company will supervise the voting proceedings.

Management's Discussion and Analysis or Plan of Operation

The *Management's Discussion and Analysis of the Financial Conditions and Other Information* of the Company as of December 31, 2012 is attached hereto as Annex B.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on April 8, 2013.

PETRON CORPORATION

By:

Joel Angelo C. Cruz
VP - General Counsel &
Corporate Secretary

Upon the written request of the stockholder, the Company undertakes to furnish such stockholder with a copy of SEC Form 17-A free of charge. Such written request for a copy of SEC Form 17-A shall be directed to the Office of the General Counsel & Corporate Secretary, Petron Corporation, Podium B Level, SMC Head Office Complex, 40 San Miguel Avenue, 1550 Mandaluyong City, Philippines.

The Company shall provide copies of SEC Form 17-Q for the period ending on March 31, 2013 during the annual stockholders' meeting scheduled on May 21, 2013.

SAMPLE PROXY FORM

The undersigned stockholder of PETRON CORPORATION (the "Company") hereby appoints ______________________ or, in his/her/its absence, the Chairman of the meeting, as attorney and proxy, to represent and vote all the shares registered in his/her/its name at the annual meeting of the stockholders of the Company scheduled on May 21, 2013, Tuesday, at 2:00 p.m. at the Valle Verde Country Club, Capt. Henry P. Javier St., Bgy. Oranbo, Pasig City, Metro Manila, Philippines, and any of its adjournment(s), as fully as the undersigned can do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below.

PROPOSAL	ACTION			
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION	FULL DISCRETION OF PROXY
1. Election of Directors				
The nominees are: • Ramon S. Ang • Eric O. Recto • Lubin N. Nepomuceno • Eduardo M. Cojuangco, Jr. • Estelito P. Mendoza • Bernardino R. Abes • Roberto V. Ongpin • Ron W. Haddock • Aurora T. Calderon • Mirzan Mahathir • Romela M. Bengzon • Virgilio S. Jacito • Nelly Favis-Villafuerte • Reynaldo G. David • Artemio V. Panganiban **INSTRUCTIONS:** *To withhold authority to vote for any individual nominee(s), please mark "Exception" box and list the name(s) under*				
	FOR	AGAINST	ABSTAIN	
2. Amendment of the Articles of Incorporation of the Company to Extend its Corporate Term				
3. Approval of the Minutes of the 2012 Annual Stockholders' Meeting				
4. Approval of the Annual Report and the Audited Financial Statements of the Company for year ended December 31, 2012				
5. Ratification of all Acts of the Board of Directors and Management since the 2012 Annual Stockholders' Meeting				
6. Appointment of Manabat Sanagustin & Co., CPAs as external auditors of the Company				

Signed this _______ day of _________2013 at ____________________.

______________________________ ______________________________

PRINTED NAME OF STOCKHOLDER SIGNATURE OF STOCKHOLDER/ AUTHORIZED SIGNATORY

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE MAY 6, 2013. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING AS RECOMMENDED BY THE MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT EITHER IN AN INSTRUMENT IN WRITING DULY PRESENTED TO AND RECORDED WITH THE SECRETARY AT LEAST FIVE (5) DAYS PRIOR TO THE MEETING OR BY THE PERSONAL PRESENCE OF THE STOCKHOLDER AT THE MEETING. NOTARIZATION OF THIS PROXY IS NOT REQUIRED. FOR A CORPORATION, ITS PROXY MUST BE ACCOMPANIED BY ITS CORPORATE SECRETARY'S SWORN CERTIFICATION SETTING THE CORPORATE OFFICER'S AUTHORITY TO REPRESENT THE CORPORATION IN THE MEETING. PROXIES NEED NOT BE NOTARIZED. VALIDATION OF PROXIES WILL BE ON MAY 14, 2013 AT 2:00 P.M. AT THE SMC STOCK TRANSFER SERVICE CORPORATION OFFICE, 2ND FLOOR, SMC HEAD OFFICE COMPLEX, 40 SAN MIGUEL AVENUE, MANDALUYONG CITY.

ANNEX A-1

CERTIFICATIONS OF THE INDEPENDENT DIRECTORS

PETRON

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ARTEMIO V. PANGANIBAN**, Filipino, of legal age, and a resident of 1203 Acacia Street, Dasmariñas Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of **Petron Corporation**;

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
GMA Network, Inc.	Independent Director	2007 – present
First Philippine Holdings Corp.	Independent Director	2007 – present
Metro Pacific Investments Corp.	Independent Director	2007 - present
Manila Electric Company	Independent Director	2008 – present
Robinsons Land Corporation	Independent Director	2008 – present
GMA Holdings, Inc.	Independent Director	2009 – present
Tollways Management Corp.	Independent Director	2008 – present
Bank of the Philippine Islands	Independent Director	2010 – present
Metro Pacific Tollways Corp.	Independent Director	2010 – present
Asian Terminals	Independent Director	2010 – present
Metropolitan Bank and Trust Co.	Senior Adviser	2008 – present
Philippine Long Distance Tel. Co.	Independent Adviser	2009 – present
Philippine Daily Inquirer	Columnist (Opinion Writer)	2007 - present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **Petron Corporation**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of **Petron Corporation** of any changes in the abovementioned information within five (5) days from its occurrence.

DONE this 16th day of April, 2012 at Mandaluyong City.

ARTEMIO V. PANGANIBAN
Independent Director

SUBSCRIBED AND SWORN to before me this ___ day of APR 16 2012, 2012, at MANDALUYONG CITY, affiant personally appeared before me and exhibited to me his Diplomatic Passport No. DE 0000999 issued on January 21, 2012 issued at Department of Foreign Affairs, Manila.

Doc. No. 112;
Page No. 24;
Book No. 1;
Series of 2012.

RO[illegible] DAVALAN
Notary Public for Mandaluyong City
Notary Commission [illegible] 3133-10
[illegible]
PTR No. [illegible] Mandaluyong C[illegible]

ANNEX A-2

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNALDO G. DAVID**, Filipino, of legal are and with mailing address at 35 Narra St., South Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

I am an Independent Director of Petron Corporation;

I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Atok Big Wedge Co. Inc.	Independent Director (only up to the May 2012 Shareholders Meeting)	Dec. 10, 2009
ISM Communications Corp.	Independent Director (only up to May 2012 Shareholders Meeting)	May 25, 2011
35 Narra Inc.	Director/President	May 30, 1998
AWD Foundation for the Arts Inc.	Director	Nov. 2010

I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Petron Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities Regulation Code.

I shall inform the Corporate Secretary of Petron Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

DONE this APR 0 5 2013 2013 at Mandaluyong City.

REYNALDO G. DAVID
Independent Director

SUBSCRIBED AND SWORN to before me this APR 0 5 2013, at MANDALUYONG CITY, affiant exhibiting to me his Community Tax Certificate No. Passport No. XX3664451 issued on May 8, 2009 at Manila.

Doc. No. 447;
Page No. 91;
Book No. VIII;
Series of 2013.

ROMMEL L. BAWALAN
Notary Public for Mandaluyong City
Notary Commission No. 0333-12
Until December 31, 2013
PTR No. 1966432 1.10.12 Mandaluyong City
IBP LRN 07098 1.7.08 Pasig City
Roll of Attorney No. 42921
SMC Head Office Complex,
40 San Miguel Avenue, 1550 Mandaluyong City
MCLE Compliance No. III - 0010822 3.30.10

ANNEX B

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND OTHER INFORMATION

Financial Condition and Results of Operations

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

Results of Operations

<u>2012 vs. 2011</u>

Petron closed 2012 with a **consolidated net income** of **₱ 2.3 billion,** 73% or ₱6.2 billion lower than the ₱8.5 billion net income recorded in 2011. Despite the ₱2.1 billion loss incurred in the second quarter of 2012 due to the volatility in crude and product prices, the company managed to recover and posted a modest income.

Revenues increased by 55% to **₱ 424.80 billion** from ₱ 273.96 billion in 2011 due to the consolidation of Petron Malaysia operations starting in the second quarter of 2012 and the increase in domestic sales volume.

Sales volume grew by 59% to **74.3 million barrels (MMB)** from last year's 46.7MMB. Aside from the 26.6MMB sold by Petron Malaysia, domestic sales volume also improved by 8%, from 41.3MMB to 44.5MMB. The increase was contributed by all major sectors like Retail, Industrial and LPG which enabled the company to sustain market leadership at a share of 39%.

Cost of Goods Sold (CGS) went up by 62% or ₱ 155.15 billion from ₱ 250.83 billion in the preceding year to **₱ 405.98 billion.** The rise in cost was prompted by the escalation in the FOB of crude that went into cost and the growth in sales volume. Of the total CGS, thirty-four (34) percent pertained to Petron Malaysia.

Refinery Operating Expenses in the Philippines which form part of CGS increased by 14% to **₱ 6.40 billion**, from the ₱ 5.64 billion incurred in 2011. The increase was brought about by higher maintenance and repair works related to scheduled shutdown of various process units and turnaround of tanks, rise in consumption and price of catalysts and depreciation of completed projects.

Selling & Administrative Expenses (OPEX) of **₱ 9.43 billion** exceeded last year's ₱ 7.87 billion level by 20% owing primarily to the ₱ 2.51 billion expenses of Petron Malaysia. Philippine operation's expenditures on the other hand, dropped by 12% or ₱ 948 million due to lower employee costs and materials and supplies.

Net Financing Costs & Other Charges substantially increased to **₱ 6.44 billion** from the ₱ 4.14 billion level of the previous year. This was attributed to the surge in interest expense and bank charges as a result of higher borrowing level despite lower borrowing rate aggravated by the drop in interest earned from advances to PCERP. The increase was partly offset by the decline in share in net losses of associates and higher gains from US-dollar denominated transactions.

With the significant drop in income before income tax, **Income tax expense** decreased from ₱ 2.64 billion in 2011 to **₱ 0.67 billion** this year.

<u>2011 vs. 2010</u>

Petron posted a 20% increase in revenues during the year with sales of **₱273.96 billion** due to the hike in average selling price in 2011. This fully offset the effect of a 3% decline in sales volume resulting from high product prices. The Company ended the year with a consolidated net income of **₱8.48 billion**, 7% or P560 million higher than last year as product cracks improved during the period.

Overall **sales volume** in 2011 declined by **3%** to **46.70 million barrels (MMB)** from last year's 48.29MMB, traced mainly to the contraction in the domestic market. The decrease in industrial fuel oil and diesel sales due to lower power demand as well as the drop in gasoline sales due to high price was partly offset by the growth in LPG and Jet-A1 sales. Supply sales, on the other hand, grew by 84% largely due to Propylene sales this year. Moreover, export sales rose by 4% with the increase in demand for HSFO in the international market.

In 2011, Petron posted a consolidated net income of ₱8.48 billion, 7% or ₱560 million more than the ₱7.92 billion earnings reported in 2010 due to better margins trimmed down by higher operating and financial expenses. The increase in gross margin was due to the recovery in product cracks in the region during the period.

Net sales revenue for the year grew by 20% to **₱ 273.96 billion from** the ₱229.09 billion level in previous year, primarily due to higher average selling price per liter (2011: ₱ 36.90 vs. 2010:₱ 29.84) as regional MOPS prices surged to an average of US$117.03/bbl from US$86.98/bbl last year to go along with the rise in Dubai crude by 36% or an average of US$28.11/bbl from US$78.08/bbl in 2010 to US$106.19/bbl in 2011.

Cost of Goods Sold (CGS) went up by 20% or ₱ 41.55 billion from last year's ₱ 209.28 billion to **₱ 250.83 billion** in the current year. The increase was prompted by higher FOB of crude that went into cost (2011: US$106.05/bbl vs. 2010: US$77.57/bbl) which pulled up average cost per liter to ₱ 33.78 this year from ₱ 27.26 in 2010.

Refinery Operating Expenses which is part of CGS amounted to **₱ 5.64 billion**, 13% higher than the ₱ 4.98 billion incurred in 2010. Incremental operating expenses was brought about by rent on equipment and fuel used for RMP-2 projects, higher maintenance and repairs of facilities on shut-down and turnaround activities of some units, as well as increased power consumption. Meanwhile, some units of GasOil Hydrotreater were fully depreciated during the year, hence, the drop in depreciation expense.

Selling & Administrative Expenses (OPEX) increased by 13% to **₱ 7.87 billion** from the ₱ 6.94 billion level in 2010. Aggressive promotional activities, depreciation and lot rental of additional service stations, higher retirement expense and increased purchases of LPG cylinders contributed to the hike in OPEX. Consequently, **OPEX per liter** rose by 18% or ₱ 0.16 from ₱ 0.90 last year to **₱ 1.06** in 2011.

Net Financing Costs & Other Charges increased significantly to **₱ 4.14 billion** from the ₱ 2.57 billion level reported last year. The rise in financing costs was due to higher interest expense with higher borrowing level and rate during the year aggravated by net commodity hedging loss this year against net foreign exchange gain in the previous year.

With the improvement in income, **Income tax expense** rose to **₱ 2.64 billion** from ₱ 2.38 billion in 2010.

Financial Condition

2012

Petron ended 2012 with **total assets** of **₱ 279.20 billion**, 59% or ₱ 103.40 billion higher than the end-December 2011 level of ₱ 175.80 billion. The growth was due to the consolidation of Petron Malaysia and the increases in property, plant and equipment, and receivables of Petron Philippines.

Cash and cash equivalents rose by 13% to **₱ 26.97 billion** sourced mainly from the issuance of preferred shares, collection of PCERP advances and net loan availment. This was partly reduced by major capital expenditures at the Petron Bataan Refinery ("PBR" or the "Refinery"), construction of additional service stations, acquisition of Petron Malaysia and increase in government receivables.

Financial assets at fair value through profit or loss decreased by 22% from ₱ 237 million to **₱ 186 million** with the sale of a number of stock investments partly tempered by higher market value of proprietary membership shares.

Trade and Other Receivables-net amounted to **₱ 57.73 billion,** more than double the ₱ 26.61 billion level reported last year attributed mainly to Petron Malaysia's receivables coupled with the increase in Petron's collectibles from the government.

Inventories grew by 31% from ₱ 37.76 billion to **₱ 49.58 billion** chiefly due to the consolidation of Petron Malaysia's inventories.

Other current assets of **₱ 10.75 billion** also registered a 31% increase from last year's ₱ 8.18 billion level attributed to Petron's higher input VAT, and prepaid taxes and other expenses of Petron Malaysia and Petron Philippines.

Assets held for sale surged to **₱ 588 million** from last year's ₱ 10 million mainly due to the reclassification of Petron Mega Plaza units and parking spaces which resulted in the decline in **Investment Property - net**, from ₱ 794 million to **₱ 116 million.**

Property, plant and equipment-net doubled to **₱ 102.14 billion** from the December 2011 balance of ₱ 50.45 billion traced primarily to the capital projects at the Refinery such as the Refinery Master Plan Phase 2 (RMP-2) and Refinery Solid Fuel-Fired Power Plant (RSFFPP), construction of additional service stations as well as the fixed assets of the newly acquired subsidiary in Malaysia.

Investment in associates dropped from ₱ 2.51 billion to **₱ 1.64 billion** with the conversion of Limay Energen Corporation from an associate to a subsidiary, partly countered by the additional investment in PAHL.

Available-for-sale financial assets (current and non-current) slid by 12% to **₱ 911 million** basically on account of premium amortization and translation loss of Ovincor's investment in government securities along with matured debt securities of Petrogen.

Deferred tax assets of **₱ 78 million** went beyond last year's ₱ 15 million level attributed to the deferred tax asset of Petron Malaysia.

The acquisition of Petron Malaysia, Parkville Estate and Development Corporation, and Mariveles Landco Corporation resulted in the recognition of **Goodwill** for **₱ 10.26 billion.**

Other noncurrent assets-net dipped by 25% from ₱ 24.38 billion to **₱ 18.25 billion** due to the partial collection of advances to PCERP tempered by the balance brought in by Petron Malaysia.

Short-term loans and **liabilities for crude oil and petroleum product importations** increased considerably from ₱ 54.44 billion to **₱ 124.70 billion** due to additional short-term loan availments of Petron Philippines and the consolidation of Petron Malaysia.

Trade and other Payables of **₱ 14.87 billion** doubled compared with the ₱ 7.38 billion level as at end of December 2011 prompted by higher liabilities to contractors related to the Company's capital projects on top of the trade and other payables of Petron Malaysia.

Derivative Liabilities ballooned from ₱ 55 million to **₱ 245 million** brought about by the marked-to-market loss on outstanding foreign currency forwards.

Income tax payable showed a 33% reduction from ₱ 78 million to **₱ 52 million** chiefly due to lower taxes payable of PSTPL.

Long-term debt inclusive of current portion went up by 12% from ₱ 49.87 billion to **₱ 56.01 billion** due to newly availed dollar loans to support the capital requirements of the Company.

Retirement benefits liability increased by 6% to **₱ 713 million** mainly from the balance of the newly acquired subsidiary in Malaysia.

Deferred tax liabilities escalated by 67% to **₱ 3.05 billion** principally due to the temporary differences of Petron Malaysia.

Asset retirement obligation dropped by 6% from ₱ 1.06 billion to **₱ 1.00 billion** essentially on account of lower accretion rate and contract extensions on various locations.

The surge in **Other noncurrent liabilities** from ₱ 740 million to **₱ 2.44 billion** emanated largely from Petron's retention payable to contractors of major capital projects at the Refinery partly reduced by the drop in cylinder deposits.

Total equity closed at **₱ 76.14 billion** as of December 31, 2012 and surpassed the ₱ 59.69 billion level as at end of December 2011 by 28% or ₱ 16.45 billion, largely from the issuance of preferred shares by a subsidiary.

2011

Petron's **consolidated resources** as at December 31, 2011 rose to **₱ 175.79 billion,** 9% or ₱ 13.97 billion higher over end-December 2010 level of ₱ 161.82 billion due largely to the increase in property, plant and equipment and inventories.

Cash and cash equivalents dropped by 46% to **₱ 23.82 billion** basically to finance working capital requirements (Inventories and Receivables), capital expenditures and other investments.

Trade and Other Receivables-net escalated by 10% (₱ 2.34 billion) to **₱ 26.60 billion** on account of higher sales to industrial customers, boosted by the increase in supply sales.

Inventories showed a significant increase from ₱ 28.15 billion to **₱ 37.76 billion** mainly due to higher crude and product prices.

Other current assets almost doubled the ₱ 4.29 billion level as at end of 2010 to **₱ 8.18 billion** as at end of 2011 owing to higher Input VAT prompted by the escalation in the price of crude and finished products.

Assets held for sale dropped to **₱ 10 million** from last year's ₱ 823 million due to the reclassification of Petron Mega Plaza to **Investment Property - net**, thereby increasing the balance to **₱ 794 million** from ₱ 119 million.

Property, plant and equipment-net grew by 44% from ₱ 34.96 billion to **₱ 50.45 billion** brought about by major capital projects at the refinery such as the RMP 2 and Refinery Solid Fuel Fired Power Plant, in addition to newly built service stations.

Investment in associates rose to **₱ 2.50 billion** from ₱ 804 million with the additional investment in Limay Energen Corporation (LEC) and the purchase of 35% interest in Manila North Harbour Port, Inc.

Available-for-sale financial assets (current and non-current) dipped to **₱ 1.04 billion** from ₱ 1.16 billion last year with the decline in investments in government securities and corporate bonds.

Deferred tax assets slid to **₱ 15 million** from ₱ 28 million in 2010 after considering the effects of unrealized profit and cumulative translation adjustment related to subsidiaries.

Other noncurrent assets-net increased by 6% or ₱ 1.37 billion to **₱ 24.38** billion essentially due to additional advances to associates.

Short-term loans and **liabilities for crude oil and petroleum product importations of ₱ 54.43 billion** surged by 25% (₱ 10.78 billion), reflective of the increase in crude and finished product prices this year.

Trade and other Payables rose from ₱ 6.74 billion to **₱ 7.38 billion** on account of higher purchases for various capital projects.

Derivative Liabilities of **₱ 55 million** showed a considerable increase from the ₱ 30 million level as at end of December 2010 traced largely to the marked-to-market loss on outstanding derivative transactions.

Income tax payable ballooned to **₱ 78 million** from ₱ 14 million of the previous year as a result of higher taxable income during the twelve-month period.

Long-term debt inclusive of current portion fell by 8% from ₱ 54.40 billion to **₱ 49.87 billion** with the settlement of matured obligation.

Retirement benefits liability increased nearly three times from ₱ 249 million a year earlier to **₱ 671 million** in 2011 caused by the decline in fair value of plan assets based on actuarial valuation report.

Deferred tax liabilities of **₱ 1.82 billion** showed a 7% reduction from the ₱ 1.96 billion balance as at December 31, 2010 after considering the effect of temporary differences in income tax computation.

Asset retirement obligation went up by 30% (₱ 246 million) from ₱ 815 million to **₱ 1.06 billion** influenced mainly by higher estimated dismantling costs and accretion rate.

Other noncurrent liabilities increased by ₱ 131 million to **₱ 740 million** with the increase in cylinder deposits and cash bonds.

Total equity amounted to **₱ 59.69 billion**, 12% higher than the ₱ 53.34 billion level in December 2010, traceable to the **₱ 8.48** billion income realized during the year partly offset by the dividends paid to preferred and common shareholders totaling **₱ 2.13 billion.**

Cash Flows

2012

Cash inflows from operating activities amounted to **₱ 1.85 billion**. Meanwhile, proceeds from net availment of loans, partial collection of advances to PCERP, as well as the issuance of preferred shares were used to finance the major capital projects at the Refinery, construction of additional service stations and the acquisition of subsidiaries. Cash balance as at end of 2012 stood at ₱ 26.97 billion.

2011

Operating activities yielded a **net cash inflow** of **₱ 0.79 billion**, significantly lower compared with the ₱ 17.45 billion level the previous year as improved EBITDA was offset by the increase in working capital requirements specifically inventories and receivables. This was supplemented by funds sourced from the availment of long-term loans. Cash balance as at end of 2011 stood at ₱ 23.82 billion.

Top Five (5) Key Performance Indicators

Ratio	Dec-12	Dec-11	Dec-10
Current Ratio	1.0	1.5	1.6
Debt to Equity Ratio	2.7	1.9	2.0
Return on Equity (%)	3.4	15.0	17.4
Interest Rate Coverage Ratio	1.9	3.6	3.7
Assets to Equity Ratio	3.7	2.9	3.0

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

This ratio is a rough indication of a company's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a company's ability to pay them.

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

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

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

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

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

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

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

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

Business Conditions

Economic Growth, in %	2011	2012
GDP	3.9	6.6
GNP	3.2	5.8
By Industrial Origin		
Agriculture	2.7	2.7
Industry	2.3	6.5
Services	5.1	7.4
By Type of Expenditure		
Personal Consumption	6.3	6.1
Government Consumption	1.0	11.8
Capital Formation	8.1	-4.4
Exports	-4.2	8.7
Imports	0.2	4.2

2012 was a good year for the economy. After expanding by only 3.9% in 2011, the Philippine gross domestic product ("GDP") surged in 2012 and grew by 6.6%.

By industrial origin, services which account for close to 60% of GDP posted a 7.4% increase supported by growth in transport and telecommunications. Real estate, renting and business activities also showed a strong performance tied up with the expansion of the business process outsourcing sector and possibly the investment spending of overseas Filipino workers ("OFWs"). The industry sector rose by 6.5% due to strong construction, manufacturing and the utilities sectors. Agriculture reflected a sustained but subdued growth of 2.7% as the growth in farm output (crops, livestock and poultry) was offset by the decline in the fishery and forestry sectors.

On the demand side, growth was largely driven by personal consumption (70% of GDP, up 6.1%). Spending on health, transport, recreation and communications was supported by strong OFW remittances which grew by 6.3% in 2012 and a benign inflation (3.2%). Government consumption on government programs, social services and projects also rebounded after a sluggish growth in 2011. On the other hand, while capital formation declined 4.4% in 2012 due to negative changes in inventory, investments in fixed capital expanded 8.7% from flat performance in 2011. Public construction and repair of roads and irrigation projects in the provinces was aggressive throughout the year. Private construction also contributed to growth, rebounding in the 2nd half of 2012 with a 22% increase, after a dismal performance in the first half of 2012. The growth in private construction was also reflected in the number of building permits rising more than 50%. Meanwhile, exports, combined merchandise and services, grew by 8.7% driven by metal components, office equipment, telecommunications and travel and transportation services, and the business process outsourcing for exports of services such as insurance.

Oil demand (excluding demand for lubes and greases) rebounded in 2012. After the demand contraction of 4.4% in 2011, industry oil demand recovered in 2012 and rose by around 3.6% (based on tentative data from Department of Energy ("DOE")). From 292.8 thousand barrels per day ("MBD") in 2011, demand grew to 303.2MBD supported by healthy business environment during the year. High GDP growth, strong personal consumption with rising OFW remittances, and increasing vehicle sales pushed oil demand.

Peso sustains strength in 2012. The Philippine currency's appreciating trend was sustained in 2012. From an average of P43.3/$ in 2011, peso strengthened and averaged P42.2/$ in 2012. It ended the year at a stronger P41/$ level as high dollar inflows from exports, high OFW remittances, foreign investments and international reserves boosted the peso. Appreciating peso makes the Company's import costs and value of foreign-denominated debts lower.

Inflation and interest rates remain stable in 2012. Prices and interest rates remained subdued in 2012. From 4.7% average inflation in 2011, the hike in prices in 2012 has been more subtle with inflation averaging 3.2%. The gradual hike in commodity, food and services prices during the year contributed to the benign inflation in 2012.

Low interest rates were sustained in 2012. Sufficient liquidity, benign inflation, and BSP's low policy rates brought down interest rates in the financial markets. 3-month PDST-F averaged 1.8% in 2012 from 2.0% in 2011, and 91-day T-bills averaged 1.6% from 1.5% in 2011.

Oil prices have been volatile in 2012. Oil prices have been very volatile in 2012. During the first quarter, oil prices were on the rise and Dubai peaked to $124/bbl because of supply disruption with the unrests in Yemen, Syria and Sudan and the imposition of an oil embargo against Iran as sanction for its heightened nuclear program. However by the second quarter, oil prices started to slide and Dubai dropped to below $100/bbl level due to increased production of Saudi Arabia to compensate for the reduced supply from the troubled oil-producing countries, lower oil demand growth in 2012 and bearish global economic prospects. Towards the second half of 2012, Dubai moved somewhat steadily within $100-110/bbl band bringing full year 2012 average at $109/bbl, slightly higher than 2011's $106.3/bbl.

Industry competition remained tight. New players remain aggressive in strengthening their hold of the market. Their collective market share (excluding end-users' direct imports of jet fuel) has grown to an estimated 25% in 2012 from 23.4% in 2011 as the new players have implemented different marketing strategies and continuously expanded their service station network. The new players have also been very aggressive in the liquefied petroleum gas ("LPG") market collectively capturing around 58.2% of the total LPG market (with the large increase in LPG market share of new players due to purchase by Isla Petroleum & Gas Corporation ("Isla") of the LPG business of Pilipinas Shell Petroleum Corporation ("Shell")). Nevertheless, Petron remains the overall market leader of the oil industry.

Illegal trading practices persisted. Despite the efforts of the government and private sector to fight smuggling through different programs, cases of illegal activities (*e.g.*, "bote-bote" retailing, illegal refilling) have persisted following the market's deregulation. This has resulted in unfair competition among players and lost tax revenues for the government.

Any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

Tax Credit Certificates-Related Matters

In 1998, the Bureau of Internal Revenue ("BIR") issued a deficiency excise tax assessment against the Company relating to the Company's use of P659 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 Court of Tax Appeals ("CTA"). In July 1999, the CTA ruled that, as a fuel supplier of Board of Investments- ("BOI") 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 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. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in a resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

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 Company, 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 Company, together with Shell and Chevron, entered into a Memorandum of Understanding ("MOU") with the City of Manila and the 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 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 Company (and other non-conforming establishments) a seven (7)-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 Supreme Court 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 Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the 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 (the "Water Code"). On February 13, 2008, the 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 Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by the Company. The Company filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered the records to be forwarded to the CA.

With regard to Ordinance 8187, petitions were filed before the Supreme Court seeking its nullification and the enjoinment of its implementation. The 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 five (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the 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 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 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 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 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 Company not criminally liable, but the SBMI found the Company to have overloaded the vessel. The Company has appealed the findings of the SBMI to the Department of Transportation and Communication ("DOTC") and is awaiting its resolution. The Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Company, which are charterers.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (the "Clean Water Act") and homicide and less serious physical injuries were filed against the Company. The 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 Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged. The provincial prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims for both cases amount to P292 million. The cases are still pending.

Any significant elements of income or loss (from continuing operations)

There are no significant elements of income or loss from continuing operations.

Seasonal aspects that has material effect on the FS

There are no seasonal items that have material effect on the financial statement.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

There are no off-balance sheet transactions, arrangements and obligations with unconsolidated entities or persons during the reporting period.

Audit and Audit-Related Fees

For the annual review of the financial statements, consultancy services and other related services, the Company paid KPMG, its external auditor, the amount of P16.1 million in 2011 and P13.4 million in 2012 (exclusive of value-added tax and out-of-pocket expenses). The fees are more particularly set out below.

	2012 (in Pesos)	2011 (in Pesos)
a. Audit fees for professional services - Annual Financial Statement	5,525,000.00	5,500,000.00
b. Professional fees for due diligence and study on various internal projects	7,533,439.00	8,032,695.00
c. Professional fees for tax consulting services	313,600.00	2,530,000.00
	13,372,039.00	16,062,695.00

After the three (3)-year contract with its previous external auditor, the Company appointed KPMG, the existing independent auditor of SMC. With a common external auditor, the consolidation of results of operations and account balances among the subsidiaries of SMC using a uniform audit approach was facilitated.

The appointment of KPMG as the Company's external auditor for 2010 to 2012 was endorsed by the Audit Committee for the approval by the Board of Directors. The Board of Directors, finding the recommendation to be in order, in turn, endorsed the appointment of the independent external auditor for the approval of the stockholders during the annual stockholders' meeting.

Set out below is the report of the Audit Committee for the year 2012.

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AUDIT COMMITTEE REPORT

The Board of Directors
Petron Corporation

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

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

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

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

Reynaldo G. David
Chairperson
Independent Director

Estelito P. Mendoza
Director

Artemio V. Panganiban
Director

Aurora T. Calderon
Director

Ferdinand K. Constantino
Director

Material Commitments for Capital Expenditure

The Company's 2012 capital program was P78.7 billion, P73.1 billion of which was approved. P71.8 billion of the approved amount is for partial funding of the Refinery expansion (P68.1 billion) and service station expansion (P3.6 billion) and P1.3 billion for other commercial, maintenance, and miscellaneous projects.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with the accountants on accounting and financial disclosure.

Description of the Nature and Business of the Company

(1) Business Development

(i) The Company

Petron was incorporated in the Philippines in 1966 as "Esso Philippines Inc." Petron was renamed "Petrophil Corporation" in 1974 when the Philippine National Oil Company ("PNOC") acquired it. In 1985, Petrophil and Bataan Refinery Corporation (formerly, the "Standard Vacuum Refining Corporation") were merged with then Petrophil Corporation as the surviving corporation. The Company changed its corporate name to "Petron Corporation" in 1988.

On March 13, 2008, Aramco Overseas Company B.V. ("AOC"), one of the Company's major shareholders in 1994, entered into a share purchase agreement with Ashmore Investment Management Limited and subsequently issued a transfer notice to PNOC to signify its intent to sell its 40% equity stake in Petron. PNOC, which then held 40% of Petron's capital stock, waived its right of first offer to purchase AOC's interest in Petron. Eventually, SEA Refinery Holdings B.V. ("SEA BV"), a company incorporated in the Netherlands and owned by funds managed by the Ashmore Group, acquired AOC's 40% interest in Petron in July 2008. Ashmore complied with the requirements of mandatory tender offer under the Code.

On October 6, 2008, PNOC informed SEA BV and Petron of its intent to dispose of its 40% stake in the company. In December 2008, the 40% interest of PNOC in Petron was purchased by SEA Refinery Corporation ("SRC"), a domestic corporation wholly-owned by SEA BV. In a related development, SEA BV also sold a portion of its interest in Petron equivalent to 10.1% of the issued shares to SRC.

On December 24, 2008, SMC and SEA BV entered into an Option Agreement (the "Option Agreement") granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary SRC. The option may be exercised by SMC within a period of two (2) years from December 24, 2008. Under the Option Agreement, SMC would have representation in the Board of Directors and the Management of Petron. In the implementation of the Option Agreement, SMC representatives were elected to the Board of Directors and appointed as senior officers on January 8 and February 27, 2009.

At its April 29, 2010 meeting, the Board of Directors endorsed the amendment of the Company's Articles of Incorporation and the Company's By-Laws increasing the number of directors from 10 to 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 would 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 owned 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 Philippine Stock Exchange ("PSE") on June 8, 2010, 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 on the board of the PSE at the price of ₱7.20 per share.

SMC purchased additional 1,517,637,398 common shares of Petron from SEA BV through a special block sale crossed at the PSE on August 31, 2010. 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 B. V. pursuant to the Option Agreement. With the exercise of the option, SMC became beneficial owner of approximately 68% 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 the Company through the PSE. On December 5, 2012, PCERP further sold 195,000,000 common shares through the PSE.

The registered office address of Petron is at the SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

(ii) Subsidiaries

Petron had 10 direct subsidiaries as of December 31, 2012 as listed below:

- **New Ventures Realty Corporation** ("NVRC") is a realty firm established on August 24, 1995. NVRC is authorized to acquire and develop land but it does not engage in the subdivision business. Land suitable for use as service station sites, bulk plants or sales offices are purchased by NVRC, which are then leased to Petron for use in the latter's operation. NVRC's wholly-owned subsidiary, Las Lucas Development Corporation, which was acquired in 2003, was later renamed "Las Lucas Construction and Development Corporation" upon approval by the SEC in September 2009.

- **Petrogen Insurance Corporation** ("Petrogen") is a wholly owned subsidiary of Petron incorporated on August 23, 1996. It serves the insurance requirements of Petron and its allied business partners such as contractors, suppliers and dealers.

- **Overseas Ventures Insurance Corporation Ltd.** ("Ovincor") was incorporated on November 16, 1995 under the laws of Bermuda for the purpose of expediting the reinsurance of Petron's insurable interests as covered by Petrogen. Reinsurance includes the insurance cover for the Petron Bataan Refinery, the bulk plants and service station properties, petroleum and cargo insurance and performance bonds for Petron contractors and haulers as well.

- **Petron Freeport Corporation** ("PFC"; formerly, "Petron Treats Subic, Inc.") was incorporated on November 6, 2003. The company is registered with the Subic Bay Metropolitan Authority ("SBMA") as a Subic Bay Freeport ("SBF") enterprise. PFC is engaged in the business of importing, transporting, trading and retailing petroleum products and related products. As a registered SBF enterprise, PFC is entitled to tax-free and duty-free importation of raw materials and capital equipment for use solely within SBF. PFC has two (2) divisions - retail and manufacturing. The retail division handles the service station operations (*i.e.*, forecourt, quick-service restaurant, and locators). The manufacturing division is engaged in refining, distilling and manufacturing any and all kinds of petroleum products, oil, gas and other vehicle substances. Direct operations of the retail facilities and the manufacturing plant of PFC allows Petron to deal in the business of purchasing, marketing, distributing and trading petroleum, oil, gas, and related products.

  Petron Marketing Corporation ("PMC") was incorporated on January 27, 2004 with the same business purpose as PFC. PMC is a wholly owned subsidiary of Petron. From 11 service stations in 2011, the total number of service stations operated by PMC in 2012 rose to 18. Five (5) of these service stations located in Commonwealth, Connecticut, Danlig, España and N. Domingo were turned over to third party dealers.

- **Limay Energen Corporation** ("LEC") was incorporated on August 23, 2010. LEC became wholly owned by Petron in January 2012. The primary purpose of LEC is to build, operate, maintain, sell and lease power generation plants, facilities, equipment and other related assets and generally engage in the business of power generation and sale of electricity generated by its facilities.

- **Petron Singapore Trading Pte. Ltd.** ("PSTPL") was established in 2010 as Petron's trading subsidiary in Singapore. The subsidiary aims to optimize crude procurement and participate in Singapore's Global Trader Program, which allows the Company access to a wider selection of crude alternatives, resulting in further optimization of Petron's crude selection.

- **Petron Global Limited** ("Petron Global") is a holding company incorporated under the laws of the British Virgin Islands acquired by the Company on February 24, 2012.

- **Petron Finance (Labuan) Limited** ("Petron Finance") is a holding company incorporated under the laws of Labuan, Malaysia acquired by the Company on March 2, 2012.

- **Petron Oil & Gas Mauritius Ltd.** ("POGM") is a holding company incorporated under the laws of Mauritius acquired by the Company on February 8, 2012.

  Petron Oil & Gas International Sdn Bhd ("POGI") is a subsidiary of POGM incorporated under the laws of Malaysia, which, on March 30, 2012, acquired 65% of the issued and outstanding share capital of Esso Malaysia Berhad ("EMB"), a publicly-listed company in Malaysia, and 100% of the issued and outstanding share capital of ExxonMobil Malaysia Sdn Bhd and ExxonMobil Borneo Sdn Bhd. POGI subsequently acquired an additional 8.4% of the voting shares of EMB in May 2012 pursuant to a mandatory takeover offer. On April 23, 2012, the Companies Commission of

Malaysia ("CCM") approved the change of name of ExxonMobil Malaysia Sdn Bhd to "Petron Fuel International Sdn Bhd" ("PFISB") and of ExxonMobil Borneo Sdn Bhd. to "Petron Oil (M) Sdn Bhd." ("POM"). Thereafter, on July 11, 2012, the CCM approved the change of name of EMB to "Petron Malaysia Refining & Marketing Bhd." ("PMRMB"). PMRMB, PFISB and POM are companies also incorporated under the laws of Malaysia and are engaged in the downstream oil business in Malaysia.

The above-listed subsidiaries of the Company have no plans of engaging in lines of products or services other than those provided in connection with the promotion and enhancement of the business of the Company.

The Company and its subsidiaries are not subject of any bankruptcy, receivership or similar proceedings.

(iii) **Operating Highlights**

National Sales Division

Amid a highly competitive market environment, Petron outperformed industry at 5.9% growth against the latter's 3.6%. Petron maintained its leadership at 38.5% market share, a 0.8% increase from 2011 level.

Petron Reseller (service station) Trade's 2012 volume increase of 6.8% was attributed to stronger network sales supported by various sales push programs, network expansion, and aggressive dealer solicitation efforts.

Petron's Industrial-Civil Trade's 2012 volume surged by 10.1% with the increased dispatch of fuel-fired power plants following the maintenance shutdown of coal-fired power plants, acquisition of new and competitive accounts, increased participation in split-supplied accounts, and expansion of existing customers.

Petron's 2012 National Power Corporation ("NPC") sales slid by 8.0% with the increased dispatch of diesel-fired power plant amidst high electricity prices offset by the non-acquisition of Western Mindanao Power Corp.

Gasul Trade's sales grew by 3.8% versus 2011, driven by higher household liquefied petroleum gas ("LPG") sales underpinned by expansion of dealer branch stores and retail outlets.

Lube Trade's sales went up by 6.4% owing to acquisition of new and competitive accounts and increased penetration in non-traditional outlets such as auto-supply stores.

Refinery

2012 was a momentous year for the Petron Bataan Refinery ("PBR" or the "Refinery") that was marked with significant milestones on safety performance and developments on the ongoing implementation of the two (2) biggest major projects in the history of Petron. The highlights of the Refinery 2012 include the following:

- **Initial Firing of Refinery Solid Fuel-Fired Boiler ("RSFFB") Unit 1.** This event was held on December 20, 2012 and was highlighted by the ceremonial "push" of the burner igniter button by Vice President for Refinery Freddie P. Yumang. The first firing of the unit 1 of the new power plant facilitated the start of the commissioning of this new facility for its commercial operation.

- **Milestone in the Refinery Master Plan - Phase 2 ("RMP-2") Project.** A milestone of the RMP-2 project was marked in a ceremony at the RMP-2 site to celebrate the erection of the propylene splitter of the propylene recovery unit no. 2 ("PRU No. 2"), the Refinery's new tallest tower among its process units that soars at a height of 98.3 meters. The event was participated in by executives and key personnel from Petron and main engineering, procurement and construction contractor Daelim which committed 100% safe completion of the project construction.

  Aside from the PRU No. 2, other RMP-2 facilities already installed at site during the year include the following: naphtha hydrotreater no. 2 reactors, vacuum pipestill no. 2 column and heater, FCC No. 2 regenerator, selective hydroprocessing unit reactors, coker gas oil hydrotreater reactors, polynaphtha unit reactors, LPG treaters No. 3 and 4, sulfur recovery unit waste heat exchanger, hydrogen plant adsorbers and gas oil hydrotreater No. 4 reactor.

- **Record-Breaking Safety Milestone:** The PBR achieved 18.9 million man-hours without Lost Time Accident in June 11, 2012 - the highest in the history of 51 years of existence of the PBR. The PBR sustained 100% compliance with its behavior-based safety program which was first attained in September 2011. The PBR again sustained perfect compliance with the program throughout the year.

- **Sustenance of the Integrated Management System ("IMS") Certification for Four (4) Consecutive Years.** The PBR successfully passed the IMS re-Certification Audit conducted by TUV SUD PSB Philippines Inc. from April 16-18, 2012. The PBR has sustained certification with the IMS since 2009 with its conformity to the international standards of Quality (ISO-9001:2008), Environment (ISO-14001:2004), and Health and Safety (OHSAS-18001:2007). With this certification, the Refinery is confirmed to be a modern complex aligned towards improved quality, productivity, environmental, health, and safety performance.

- **Successful holding of the 16th Continuous Improvement and Productivity ("CIP") Technical Conference.** The PBR held the 16th CIP Technical Conference at the PBR Auditorium on November 28, 2012 with the theme "Your Small Project, Our Big Progress". A total of 21 projects, grouped into seven (7) categories, namely, (1) environment, (2) oil loss prevention and energy conservation, (3) operations efficiency, (4) poka yoke, (5) safety, (6) zero downtime, and (7) service excellence, were presented to the panel of judges. Since the CIP was launched in 2003, the program has already generated a total of 506 projects.

- **Awarding of Scholarship Grants to the Second Batch of Recipients of the Refinery's Special Campus Recruitment Program.** The PBR sponsored the education of 142 scholars during the year, 58 of whom were Batch 2 recipients who were awarded with scholarship grants in August 2012 while the rest were from Batch 1 scholars in 2011. The scholarship program aims to support the PBR's current manpower requirement and demand for engineers in the next one to two years for the eventual operation of the RSFFB and the RMP-2 and provide extensive learning and future career opportunities for undergraduate engineering students of selected top engineering schools in the country. This program is in addition to the on-going scholarships granted to 18 students from the Bataan-based engineering schools.

Supply and Operations

- **Ethanol Program.** Since September 2012, the Company has attained full compliance in blending 10% ethanol in *Xtra* and *XCS*. The Company adhered to the mandate requiring prioritization of consumption of locally-produced ethanol, which had been in effect since the first quarter of 2012.

  San Carlos Bioenergy Inc. ("SCBI") was the Company's sole local E98 supplier for 2012. The total volume lifted from SCBI was 20.5 million liters. The Company imported 66 million liters in 2012 to meet its E98 requirement.

- **Baseoil Supplier Network Expansion.** The Company currently has a network of 30 baseoil suppliers.

Human Resources

The Company's Human Resources Management Department ("HRMD") continued to evolve and play a more strategic role in supporting the Petron organization. It constantly sought innovative people strategies that would directly support corporate objectives of growth and expansion while contributing to the employees' continuing professional and personal growth.

HRMD continued to make strides toward aligning human resource strategies with corporate goals in the midst of challenging demands for transformation in an evolving business environment.

Aggressive recruitment saw 458 new employees joining the Petron Group in 2012. A large number of employees have undergone training programs to enrich competencies and develop capabilities that will make them more attuned to the needs of the organization and impact on competition.

To ensure organizational readiness for the vast potential on corporate growth, business processes were rationalized and organizational units were realigned, resulting to more streamlined functions and processes that will cater to specific needs of the customers and the business for its sustained growth. Benefit policies such as the retirement and hospitalization plans were reviewed and revised. New policies were developed and new guidelines were implemented, such as the special calamity loan for the calamity/flood victims, health maintenance organization coverage for extended/other dependents and implementing guidelines for special leave benefit for women.
55 sessions of developmental interventions such as *Raise the Bar*, *Unleash Your Creativity in the Workplace*, *Corporate Image* and *Labor Management Relations* were conducted to help employees demonstrate skills, attitudes and behaviors that are in accordance with the Company's core competencies.

Through 26 customized training programs on leadership and management development (*e.g.*, *Entrepreneurial Development*, *Strategic Management in a Global Environment*, and *Finance for Strategic Decision Making*), HRMD led activities that boosted leaders' ability to lead and manage change.

HRMD continued to highlight employee engagement programs that enabled the employees to get fully involved in activities that will further the interests of the Company.

The Collective Bargaining Agreement ("CBA") with the Petron Employees Association ("PEA-NATU") was concluded in record time last year, demonstrating Petron's employees' openness to sit down with the Management.

Petron also coordinated with its contractors and the Department of Labor and Employment ("DOLE") for the implementation of the latter's *Big Brother* program.

The work life balance programs of the Company positively affected the employees' attitude towards their job, strengthened synergies among work groups, and fostered loyalty among employees, encouraging them to establish long-term careers with the Company.

HRMD continued to facilitate cultural assimilation between Petron and SMC for more synergy and productive exchanges of best practices and information. Petron employees participated in various SMC events that foster camaraderie and activities that are spiced up with a little competition (*e.g.*, Night Market, Valentines/Halloween parties, HR Summit, Fun Olympics, Battle of the Bands, X Factor) including the integrated Christmas party for more than 5,000 employees of the San Miguel Group with offices in Metro Manila. Petron representatives also placed in the various competitions such as the SMC Best Dance Crew. There were also inter-company sports events such as basketball, bowling, futsal, darts, badminton and billiards. Additionally, work/life balance activities for Petron employees were conducted, such as the Art Club's painting exhibit, photography sessions, brown bag session, etc.

Health, Safety and Environment

The Supply and Operations Group of the Company ("S&O") achieved several milestones in their operations as well as recognitions from local government agencies. S&O achieved a significant safety milestone attaining zero Loss Time Incident ("LTI") posting a combined record of 49.4 million safe-man-hours milestone covering the whole division and its contractors as of December 31, 2012. With the annual safety programs being implemented by S&O, all 31 terminals and depots of the company were conferred with the 2011 *Safety Milestone* ("Smile") award by the DOLE - Bureau of Working Conditions on December 6, 2012 for their safety achievements in 2011.

On the other hand, the PBR attained 1.4 million man-hours or 41 integrated man-days of safe refinery operations, inspite of the increased number of activities at the PBR during the year due to major turnaround and construction of pressure vessels and atmospheric tanks. Hazards and unsafe behaviors identified were addressed immediately to prevent them from causing accidents/incidents. With further regular training, safety audits and drills, the PBR attained 1,379 days work, or equivalent to 18.9 million man-hours, without LTA starting September 1, 2008 up to June 12, 2012.

- **Inspections / Audit.** Safety inspections were conducted at 25 depots and terminals and five (5) LPG mini refilling plants by Operations' Safety to ensure that the plants adhere to the Company's standards on health and safety of all its employees, customers, suppliers, contractors and the general public. Safety inspections of sites at the contractors' were also done. The Company's Corporate Technical & Engineering Services Group completed safety and mechanical inspections in eight (8) depots/terminals, 60 service stations and five (5) LPG-filling plants as part of the task force assigned to check on dealers' facilities.

- **Emergency Preparedness & Actual Incident/Accident Response.** Operations' Health, Safety and Environment rigorously required all depots and terminals to conduct drills on emergency response to enhance the competency of its personnel to a level comparable with noted disaster response organizations. A total of 72 fire drills, six (6) oil spill drills and 38 other emergency drills which includes earthquake, flood, first aid response, bomb threat and evacuation drills were conducted in all facilities nationwide.

- **Safety in Depot and Plant Operations.** Depots and terminals receive, store and distribute finished petroleum products and various grades of lube oils and additives. All 31 depots and terminals attained zero LTI in 2011. Depot operations subscribe to Quality, Safety and Environment Management Systems to guide personnel in maintaining the quality, safe handling and delivery of products to customers.

Corporate Social Responsibility

In February 2012, Petron was honored by the Management Association of the Philippines with the prestigious Integral CSR Award during the CSR Leadership Challenge 2011. The CSR Leadership Challenge aims to promote and recognize exemplary corporate social responsibility policies, programs, and practices of the Philippines' premier corporate citizens. The Integral CSR Award was a recognition of Petron's earnest efforts to make social responsibility an integral function of the entire organization manifested in every aspect of its business operations.

Petron also received the Special Award for Environment and Sustainable Development for its entry *Measuring, Managing and Minimizing Our Environment Footprint in Bataan* for the Company's initiatives to preserve and protect the environment and promote sustainable development in the Province of Bataan, particularly in effectively managing its water use and consumption, waste generation, greenhouse gas accounting and air emissions inventory, as well as its leadership in implementing the Bataan Integrated Coastal Management ("ICM") Program.

Petron Foundation, Inc. ("PFI") continued to be at the forefront of Petron's efforts to make a sustainable impact to society and the environment, while at the same time helping the Company attain its business goals.

Among the CSR and sustainability activities of Petron and PFI are the following:

- ***Tulong Aral ng Petron***. *Tulong Aral ng Petron* ("Tulong Aral") is a long-term, strategic initiative that helps send poor children to school, keep them there and make sure they learn. This is the centerpiece corporate social responsibility ("CSR") program that defines what Petron stands for socially - to FUEL H.O.P.E. (Helping the Filipino children and youth Overcome Poverty through Education). *Tulong Aral* has scholarship programs for elementary, high school and college/vocational students.

  At the end of 2012, *Tulong Aral*, in partnership with the Department of Social Welfare and Development ("DSWD"), the Department of Education ("DepEd") and the World Vision Development Foundation, had a total of 3,486 scholars enrolled from Grades one to six who continued to enjoy the provision of books, school supplies, shoes and uniforms, daily meal allowances for children, and capability building and livelihood programs for parents. In March of 2012, 1,100 *Tulong Aral* scholars graduated, comprised the fourth batch of children who started the program in 2006. The end of school year 2011-2012 also produced 433 outstanding students, 16 of whom graduated with first honors. A significant majority of the scholars (95.5%) were able to complete their primary education, while the drop-out rate was kept to a mere 4.5%, way below the national average of 8%.

  In partnership with DepEd, DSWD, and the Land Bank of the Philippines, a total of 372 youths received scholarships to go to high school in 26 public schools in Metro Manila. The program is being implemented for Petron by the Philippine Business for Social Progress.

For the school year 2012-2013, Petron sponsored the college education of 24 scholars pursuing different degrees from various academic institutions, the qualified of whom who can eventually earn the opportunity to be employed by Petron.

- **Petron Schools.** As a parallel effort and in support of DepEd's *Adopt-A-School Program*, PFI continued to pursue its school building program. In 2012, Petron was able to build a total of eight (8) new classrooms or four (4) Petron Schools in areas close to its depots located in Zamboanga del Norte, General Santos City and Tagbilaran City. This brought the total number of classrooms constructed to 197 or 79 schools, since 2002.

  Petron also sponsored the establishment of classrooms called *Silid Pangarap* for the pre-school level in support of SMC's commitment to the AGAPP (Aklat, Gabay, Aruga Tungo sa Pag-angat at Pag-asa) Foundation's program of building pre-schools. Petron is building 27 classrooms, with 17 having already been turned over in Bataan, Samar, Tagaytay, Negros Oriental, South Cotabato, and Sultan Kudarat.

- **Youth in Entrepreneurship and Leadership Development ("YIELD") Program.** One hundred third year students of the Muntinlupa Business High School ("MBHS") learned the business of business through the YIELD program. PFI implemented the YIELD for the seventh year. YIELD has a total of 827 graduates. Under the YIELD program, the qualified MBHS students spent their summer at certain Petron company-owned and company-operated ("COCO") stations to learn about the operations at the forecourt and back office and the rudiments of food service and business in COCO locators.

- **Skills Training Program for FEJODAP.** Eight-five members of the Federation of Jeepney Operators and Drivers Association of the Philippines ("FEJODAP") and their dependents had been given technical/vocational skills training courses since July 2012, 25 of whom have already completed their courses this year. Throughout 2013, 140 more will receive vouchers to complete the 200 FEJODAP members to receive training as pledged by the Technical Education and Skills Development Authority and PFI.

- **Promotion of Environmental Sustainability.** In 2012, PFI continued to take a leading role in the implementation of the Bataan ICM Program in partnership with the Provincial Government of Bataan and the Global Environment Facility-United Nations Development Programme-United Nations Office for Project Services Partnerships on Environmental Management for the Seas of East Asia ("GEF-UNDP-UNOPS PEMSEA"). Its activities included guiding local government units ("LGUs") in developing the respective zoning plans in accordance with the Bataan Coastal Land and Sea Use Zoning Plan.

  Through a partnership among PFI, the Municipality of Malay in the Province of Aklan, SMC and the Boracay Foundation, Inc., the Boracay Beach Management Program ("BBMP") was adopted to attain a sustainable development of Boracay Island. The BBMP celebrated its second year anniversary in September 2012 with key accomplishments that include increased water reliability (98%) and service coverage (96%), the acquisition of two (2) seacraft for sea patrol and emergency use and upgrading of communication equipment for better risk management, the establishment of coral nurseries near depleted coral reefs around the island, mangrove reforestation to preserve and ensure the survival of the island's mangrove areas, and reforestation of the Nabaoy River Watershed. The two-year efforts of the BBMP have contributed to a host of local and international recognitions received by the island in 2012. As part of the celebration of BBMP's second anniversary celebration, Petron signed a Memorandum of Agreement with the Department of Natural Resources ("DENR") and the Municipality of Malay to reforest and rehabilitate 20 hectares of the Nabaoy Watershed for the next three (3) years. This commitment is also aligned with Petron's support to the DENR's National Greening Program.

Petron also partnered with the DENR and the City Government of Marikina to support the *Adopt-An-Estero/Water Program* for the Marikina River and the DENR's National Greening Program. In 2012, the program was commenced along the 3.1 kilometer stretch of the Concepcion Creek, a major tributary of the Marikina River and identified by the Marikina City Environmental Management Office as a program pilot site with a river cleanup. The dredging and rehabilitation of the creek banks and easements and repair of bike lanes commenced on identified areas of the Concepcion Creek and are expected to be completed in April 2013.

Petron is also committed to have its network of facilities nationwide adopt rivers and other water bodies within the proximity of their respective areas. As of 2012, the following Petron facilities have instituted their own *Adopt-An-Estero* activities:

- Nasipit Depot (Talisay Creek)
- Davao Depot (Pampanga Creek)
- Gasul Operations, San Fernando, Pampanga (Dela Paz Norte Creek)
- Gasul Operations, Legazpi City (Reniilisan Road Creek)
- Palawan Depot (City Estero)

For the National Greening Program, Petron undertook to contribute to the DENR's goal of planting 1.5 billion trees from 2011 to 2016. Together with Depot and Plant Operations, PFI established commitments to the greening campaign by the Roxas Depot (20 hectares in Nabaoy Watershed, Malay, Aklan) and the Iloilo Depot (five (5) hectares in Maasin Watershed, Iloilo Province).

Petron also continued to work with Petron Gasul in the dredging of the two-kilometer stretch where the Marikina and Pasig Rivers meet. As of the end of 2012, the operations were more than halfway through their target, with 81% or approximately 103,000 m^3 of the waterway dredged.

- **Community-Based Programs.** PFI and the PBR undertook strategic community programs that benefitted thousands of residents in the province such as the (a) *Sulong KaBataan* program that provided values formation, technical skills and leadership training to the youth and (b) *Sulong KaBarangay* program, a public-private partnership among the local government of Limay, DSWD, PFI, the PBR, and PinoyME Foundation, that helped establish four (4) community sub-projects and one livelihood sub-project by resident volunteers of Barangays Alangan and Lamao. In 2012, a total of 101 out of school youths and 24 graduating college students from Balanga City, Municipalities of Orion and Abucay underwent values formation workshops under the *Sulong KaBataan* program and volunteers from Barangay Alangan and Lamao now supply the rug requirements of the PBR and produces doormats for local markets.

  The Petron Community Health Center within the compound of the Pandacan Terminal served a total of 1,201 patients in 2012, bringing the total number to 2,637 since March 2010.

  Petron continued to support the development of Rosario, Cavite through various CSR initiatives including the (a) rehabilitation of the waters off the coast of Rosario through the use of the artificial reef technology called REEFbuds in partnership with Yes2Life Foundation and the

Rosario LGU and (b) donation of seed money to the Municipality of Rosario that allowed a total of 693 residents to secure loans to start or enhance their livelihood activities.

- **Responding to Crises.** Petron demonstrated its commitment anew to caring for the community when it immediately mobilized to assist hundreds of families displaced by several major typhoons that hit the country. It conducted relief operations in several cities and municipalities in Metro Manila and the provinces of Bataan, Bulacan, and Rizal when Typhoon Gener and the southwest monsoon rains caused massive flooding in Metro Manila and the Central Luzon region in August 2012. In December 2012, its relief operations were brought to Compostela Valley and Davao Oriental when Typhoon Pablo hit the southern part of the Philippines.

  In partnership with SMC, PFI also continued to support rehabilitation efforts being implemented jointly by Habitat for Humanity Philippines, Inc. and Gawad Kalinga to build houses for those displaced by Typhoon Sendong in December 2011. Petron's commitment is to help put up approximately 1,250 houses in the cities of Cagayan de Oro and Iligan.

  And in line with efforts to help enhance business continuity and contribute to resilient communities, Petron partnered with the Corporate Network for Disaster Response for the Noah's Ark Project in enhancing the capabilities of LGUs and stakeholders to build disaster-resilient communities with the ultimate goal of attaining zero casualties. PFI adopted Barangay Nangka in Marikina City, one of the most disaster-prone areas in the country, for its first Noah's Ark Project.

  Petron also formalized a partnership with the Department of Science and Technology to implement Project NOAH or National Operational Assessment of Hazards in its key facilities nationwide, in support of the directive of President Benigno S. Aquino III for the country to establish a responsive program for nationwide disaster prevention and mitigation with a monitoring and early warning system along the Philippines' 18 major river basins. The aim is to be able to provide a six (6)-hour lead-time warning to vulnerable communities against impending floods utilizing advanced technology.

- **Advancing Sustainability Management and Reporting.** Petron published its 2011 Petron Sustainability Report ("SR"). This is Petron's 4th year of publishing an SR that presents the Company's triple bottomline accounting of its business as it impacts on the economy environment and society. It follows the Global Reporting Initiative ("GRI") international guidelines on Sustainability Reporting, with a B+ level, and checked by an independent external review committee. The 2011 SR was checked by the GRI Head Office in Amsterdam for an Application Level Check for conformity to the guidelines. Petron is only one of a handful of companies that are producing an SR, the first Filipino company to attain a B+ Level GRI Report, and the first company to successfully undergo a GRI Application Level Check using the G3 Guidelines.

(2) Business of the Company

(i) Principal products or services and their markets

Petron's principal business involves the refining of crude oil and the marketing and distribution of refined petroleum products. It sells a full range of refined petroleum products including gasoline, LPG, diesel, jet fuel, kerosene, industrial fuel oil, solvents, asphalts and petrochemical feedstocks - benzene, toluene, mixed xylene and propylene. Straight-run fuel oil, diesel, benzene, toluene, mixed xylene and propylene are exported. When necessary, some refined petroleum products are imported.

The major markets in the petroleum industry are the reseller (service station), industrial, LPG and lube trades. Petron sells its products to both industrial end-users and resellers through a nationwide network of service stations, LPG dealers and retail outlets. It also supplies jet fuel at key airports to international and domestic carriers.

Petron also operates a lube oil blending plant at its Pandacan Terminal. Lubricants are sold through service stations and sales centers. Its fuel additive blending plant in SBF supplies the Company's requirements and serves as Asian supply hub of Innospec, Limited, a global fuel additives supplier.

The Company also continues to expand its non-fuel businesses by concentrating on its franchising business. It has partnered with major food chains and other consumer services to give its customers a one-stop full service experience.

(ii) Percentage of sales or revenues contributed by foreign sales

Below is the summary of the percentage of sales or revenues of domestic and foreign sales of the Company and its subsidiaries from 2010 to 2012:

	Domestic	Exports/International	Total
2010, in million pesos	207,304	21,790	229,094
2010, in percentage	90%	10%	100%
2011, in million pesos	246,695	27,261	273,956
2011, in percentage	90%	10%	100%
2012, in million pesos	265,470	159,325	424,795
2012, in percentage	62%	38%	100%

(iii) Distribution methods of products or services

Petron's bulk petroleum products are refined from crude oil at the PBR in Limay, Bataan. From the PBR, products are distributed to the various bulk storage terminals and direct consumer accounts nationwide using a fleet of barges and tankers. From the storage depots, bulk products are hauled by tank trucks to service stations and to direct consumer accounts. Products may also be sourced from "rationalized" depots operated by other oil companies.

(iv) New products or services

The following are the new products and product enhancements of the Company:

<u>New Products</u>

- Petromul SS-1 - an anionic asphalt emulsion used as a binder in road construction and repair

Product Enhancements

- Enhancement of Rev-x Trekker to meet the requirements of the National Power Corporation
- Upgrade of Sprint 4T Enduro from API SJ to API SL. Sprint 4T Enduro is a premium multi-grade engine oil designed for four (4)-stroke motorcycles with either wet or dry clutch.
- Study of different base fuel formulations and properties of fuel products.

(v) Competition

Petron operates in a deregulated oil industry along with other major players Shell and Chevron, as well as more than 90 other players. This industry is heavily affected by volatile crude prices, strict environmental requirements and a more value-conscious breed of consumers. While pricing remains to be a primary driver of sales in all sectors, a shift towards total customer solutions has also been noted. Major customer initiatives include the establishment of a Petron Customer Interaction Center that attends to various customer needs from order taking to feedback/complaints management.
After expanding by only 3.9% in 2011, Philippine GDP surged in 2012 and grew by 6.6%.

Oil demand (excluding demand for lubes and greases) rebounded in 2012. After the demand contraction of 4.4% in 2011, industry oil demand recovered in 2012 and rose by around 3.6% based on tentative data from the DOE. From 292.8 thousand barrels per day (MBD) in 2011, demand grew to 303.2MBD supported by healthy business environment during the year. High GDP growth, strong personal consumption with rising OFW remittances, and increasing vehicle sales pushed oil demand.

Growing industry competition. Deregulation saw the entry of more than 90 other industry players, rendering the petroleum business more competitive. In the reseller (service station) sector, competition has shifted from the oil majors to the growing new player sector. Count of new player outlets has been increasing from 695 in 2001 to about 1,900 in 2012. New players collectively built 200 outlets in 2012, compared with oil majors' about 270 service stations. Aggressive expansion of new players is fueled by attractive dealer package, healthy gasoline margins, and flexible product sourcing. In the industrial sector, investments such as depot construction continue to pour in from players (both oil majors and independent players) aimed at increasing market share and tapping new markets. The acquisition of Shell's LPG business in the Philippines by Isla is also expected to put more pressure on the already price-sensitive LPG refiller sector as the new entrant attempts to establish a critical mass in view of its limited brand equity. In the lubes market, intense competition among over 50 brands, including big names like Castrol, Mobil, Shell, and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of uncharted markets like auto-dealerships and malls.

Petron participates in the reseller (service station), industrial, lube and LPG sectors through its network of service stations, terminals and bulk plants, dealers, and distributors nationwide. In addition, Petron is engaged in non-fuels business through its locators and billboards which are largely situated within premises of service stations.

As discussed above, aside from the two major oil companies, namely, Shell and Chevron, Petron also competes with other players which had a collective market share of 25% in 2012 from 23.4% in 2011 as the new players have implemented different marketing strategies and continuously expanded their service station network.

Historical data shows that Petron has effectively gained and protected its market leadership in the industry. Its strength lies in its organization, technology, assets, resources and infrastructure. It has continuously developed and adopted initiatives aimed at improving operational efficiency, managing costs and risks, and maximizing utilization of its assets and opportunities such as tapping new markets and engaging in new businesses.

Illegal trading practices persisted. Despite the efforts of the government and the private sector to fight smuggling through different programs, cases of illegal activities (*e.g.*, "bote-bote" retailing, illegal refilling) have persisted following the market's deregulation. This has resulted in unfair competition among players and lost tax revenues for the government.

(vi) Sources and availability of raw materials and the names of principal suppliers

In 2012, Petron purchased most of its crude from Saudi Arabian Oil Company ("Saudi Aramco") through its market interface, PSTPL. It also purchased Labuan crudes from Petronas. Other crudes like ESPO, Lower Zakum and Kikeh were purchased on spot basis from different companies. Petron renewed its Crude Oil Supply Agreement with Saudi Aramco up to October 2013 through PSPTL, with automatic one-year extensions unless terminated at the option of either party. Petron also renewed its crude oil supply agreement with Petronas covering the period January to December 2013, through PSTPL.

LPG imports were awarded to Shell International Eastern Trading Company ("SIETCO") for the period August 2012 to July 2013. Alkylate was imported on term basis from Hyundai Oil Singapore Pte. Ltd. and Total Trading Asia Pte. Ltd. from January to December 2012 and April to December 2012, respectively. Except for LPG, the Company purchased its product requirements in 2013 through PSTPL. LSFO and asphalt contracts were renewed with Petrobras Singapore Pte. Ltd. (the trading arm of Petrobras Brazil) and Trafigura Pte. Ltd., respectively, for January to December 2013. Avgas 100 LL Blue imports were awarded to SIETCO for January to December 2013. The Jet A-1 term contract was renewed with BB Energy Asia Pte. Ltd. for January to June 2013.

(vii) Dependence on one or a few major customers and identity of any such major customers

Petron and its subsidiaries do not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenue.

(viii) Transactions with and/or dependence on related parties

Described below are transactions of Petron with related parties:

1. Petron has existing supply agreements with various SMC subsidiaries. Under these agreements, Petron supplies the bunker, diesel fuel, gasoline and lube requirements of selected SMC plants and subsidiaries.

2. Petron purchases goods and services, such as those related to construction, information technology and shipping, from various SMC subsidiaries.

3. Petron entered into a lease agreement with San Miguel Properties, Inc. for its office space covering 6,759 square meters. The lease, which commenced on June 1, 2012, is for a period of one (1) year and is subject to yearly extensions upon written consent of both parties.

4. Petron also pays SMC for its share in common expenses such as utilities and management fees.

5. Petron leases from its subsidiary, NVRC, some parcels of land where some of its depots, terminals and service stations are located.

6. Petron retails its fuel products through its subsidiaries, PMC and PFC, as well as lubes through PFSIB.

7. PFC and Las Lucas Construction and Development Corporation entered into an agreement for engineering services where the latter handles the design and construction/expansion of PFC's service station and blending plant.

8. Petron obtains insurance coverage from Petrogen, which in turn obtains reinsurance coverage from Ovincor and other local reinsurers.

9. Petron advanced certain monies to PCERP for investment opportunities.

(ix) Patents, trademarks, licenses, franchises, concessions, royalty agreements

(A) Trademarks

Approved Trademark Registrations. Petron has trademark registrations for a term of 20 years for its Petrogrease, Gearfluid, Gasulette, Gasulite, Gasulgrille, Gasul, Marinekote, LPG Gasul Cylinder 50 kg., Gasul and Device, LPG Gasul Cylinder 11 kg., Petron STM, Petron Autokote, GEP, Petron Old Logo, Hypex, Extra, Petron Old Logo (Tradename), 2T, Turnol, Petromar HD, Spinol, Airlube, Hydrotur, Petromix, Voltran, Stemol, Petrocyl 680, Overglide, Grease Away, Petrokut, Petron Railroad Extra, Rubbex, Petron Dust Stop Oil, Oil Saver, DCL 100, Milrol, Petropen, Petron GST, Petron with XCS, With XCS, Super DC, LPG Gasul Cylinder 2.7 kg. Petromul CSS-1, New Petron Logo, Power Booster, Zerflo, TDH 50, Automatic Transmission Fluid, Petrotherm 32, Petrosine, Petron HDX, Petron TF, Petron, Ropgriz, Ultron and Device, 2T Motorcycle Oil, Lubritop, Antimist, Molygrease and Petron GX.

Petron Gasul 11-kg POL-VALVED Cylinder, Ultron Rallye, Rev-X Trekker, Rev-X Hauler, Rev-X HD, Bull's Eye, Ultron Extra, Sprint 4T, Xpert Diesel Oils, Penetrating Oil, Solvent 3040, Ultron Race, Ultron Touring, Lakbay Alalay, Blaze, Clean 'n Shine, Fuel Hope, Fuel Success, Fuel X Fuel Customer Experience, Pchem, Petron Farm Trac Oil for Farm Equipment, Petron Freeport Corporation, Petron Marketing Corporation, PetronConnects, Treats (for bottled water), Tulong Aral ng Petron & Device, Ultimate Release from Engine Stress, Xpert sa Makina X-tra ang Kita, "Your friend on the Road", Fuel Trust, Fuel Experience, Fuel Drive, Fuel Excellence, Fuel Efficiency, Xtend, Car Care & Logo,Go for the Xtra Miles, e-fuel, Rider, Enduro, Extra, Fiesta Gas with device, Xtra, Fiesta Gas 2.7kg cylinder, Fiesta Gas 5kg cylinder, Fiesta Gas 5kg POL-VALVED. Fiesta Gas 11kg cylinder, Fiesta Gas 11kg POL-VALVED. Fiesta Gas 22kg POL-VALVED, Fiesta Gas 50kg POL-VALVED, Bulilit Station, Bulilit Station(Gasoline Station), How far can you go on one full tank these days?, Fuel Journeys, Petron Lakbay Pinoy, Petron PInoy Fuels & Device, Petron Pinoy Diesel & Device, Petron Pinoy Regular & Device, Econo, Elite, Pantra, Limay Energen Corporation, Racer Maximum Performance, Petrolene, Petron Value Card and Device, Go Petron! Get Rewards & Benefits and TSI and Device are registered for a term of ***10 years***.

Pending Trademark Registration Applications. Petron has pending applications for registration of the following trademarks: Rover, Petron Blaze 100, Sagip Alalay, Carbon Buster, Petron Canopy Fascia, Petron XCS3, Pstore, Pmart, Pshop, Footprints Inside a Sphere & Device, Lakbay Alalay Para sa Kalikasan and Everyone's Vision & Device.

Petron also has registered and pending trademarks in Malaysia, Cambodia and Thailand.

Copyrights. Petron has copyrights for its seven (7)-kg LPG container, Gasulito with stylized letter "P" and two (2) flames, Powerburn 2T, and Petron New Logo (22 styles). Copyrights are protected during the lifetime of the creator and for 50 years after his death.

(x) Government Approval of Principal Products or Services

Government approval of Petron products and services is not generally required. Petroleum products refined at the Refinery conform to specifications under the Philippine National Standards. Importations of petroleum products and additives are reported to the DOE, in accordance with the Oil Deregulation Law. Clearances are secured from concerned government authorities for importations of restricted goods. Supply of products or services to government and government agencies undergo bidding process in accordance with law.

(xi) Effect of existing or probable government regulations on the business

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

- Biofuels Act of 2006. The Biofuels Act of 2006 mandates that ethanol comprise 5% of total gasoline volumes and that diesel contain 2% cocomethyl ester ("CME"). By February 2012, all gasoline grades should contain 10% ethanol. However, the DOE extended an exemption to regular gasoline and gasoline with 97 and above RON from the mandated ethanol content pending completion of technical testing on ethanol compatibility with motor vehicle engines especially the two (2)-stroke motorcycle engines. To produce compliant fuels, the Company invested in CME injection systems at the Refinery and the depots. Prior to the mandatory blending of ethanol into gasoline by 2009, the Company already started selling ethanol-blended gasoline in selected service stations in Metro Manila in May 2008.

- LPG Bill. This bill aims to ensure safe practices and quality standards and mitigate unfair competition in the LPG sector. LPG cylinder seal suppliers must obtain a license and certification of quality, health and safety from the DOE before they are allowed to operate. LPG cylinder re-qualifiers, repairers and scrapping centers will also have to obtain a license from the Department of Trade and Industry. The bill also imposes penalties for underfilling, under-delivering, illegal refilling and storage, sale or distribution of LPG-filled cylinders without seals, illegal possession of LPG cylinder seal, hoarding, and importation of used or second-hand LPG cylinders, refusal of inspection, and non-compliance with standards.

- Inclusion of LPG and Kerosene in the Price Act. An amendment to the Price Act is proposed to include LPG and kerosene to the list of basic necessities which are under strict monitoring by the government. Prices of these goods can be subject to price control or price ceiling in the event of emergencies, calamities, war, rebellion, etc.

- Compliance with Euro 4 standards. The DENR issued in September 2010 Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. The oil industry is currently conducting discussions on the fuel specification requirements to comply with the DENR administrative order in 2016.

- Renewable Energy Act of 2008. The Renewable Energy Act signed in December 2008 aims to promote development and commercialization of renewable and environment-friendly energy resources (*e.g.*, biomass, solar, wind) through various tax incentives. Renewable energy developers will be given a seven (7)-year income tax holiday, power generated from these sources will be VAT-exempt, and facilities to be used or imported will also have tax incentives.

- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority ("MARINA") mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.

- Clean Air Act. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.

(xii) Estimate of the amount spent during each of the last three fiscal years on research and development activities:

Satisfying customer needs is one of the factors that inspire product responsibility at Petron. The Company's Research and Development ("R&D") is responsible for all product development that complies with government laws and regulations such as the Clean Air Act, the Biofuels Act, and the Toxic Substances and Hazardous and Nuclear Wastes Control Act. Other drivers of product innovations are the requirements of original engine manufacturers and the latest technological trends in the industry.

R&D spent a total of ₱49.5 million in 2012, higher than the previous year's expense of ₱41.8 million. Expenses in 2010 amounted to ₱43.3 million.

(xiii) Costs and effects of compliance with environmental laws

Compliance with the various environmental laws like the Renewable Energy Act, the Biofuels Act, the Clean Air Act, and the Clean Water Act entails costs and additional investments on the part of the Company, resulting in higher production costs and operating expenses. For the PBR, the Company spent a total of ₱162.6 million for treatment of wastes, monitoring and compliance, permits and personnel training.

(xiv) Total number of employees

As of December 31, 2012, the total manpower of the Company and several of its subsidiaries was at 2,472 broken down as follows: 1,930 from Petron, five (5) from Petrogen, 13 from NVRC, three (3) from PSTPL, 482 from PMC, and 39 from PFC. The workforce may increase significantly in the ensuing 12 months due to expansion projects in the PBR and of the National Sales Division.

Petron has Collective Bargaining Agreements ("CBAs") with its three (3) unions, namely: (a) Bataan Refiners Union of the Philippines ("BRUP"); (b) Petron Employees Labor Union ("PELU"); and (c) Petron Employees Association - affiliated with the National Association of Trade Unions ("PEA-NATU"). The BRUP's CBA covers the period January 1, 2011 to December 31, 2013; PELU's CBA is in effect from January 1, 2011 to December 31, 2013; and PEA-NATU's CBA is from January 1, 2012 to December 31, 2014.

Petron maintains healthy and professional working relationships with the three (3) recognized labor unions within the Company. These relationships are anchored on active partnerships, quick resolution of concerns, easily accessible communication channels and understanding and buy-in of the company's vision and goals.

For about 20 years now, Petron has maintained a strike-free environment and zero-grievance record - a clear testament to its success in promoting open communications, creating various opportunities for growth, adhering to a family atmosphere, nurturing work-life balance activities, and fostering industrial peace.

In addition to the statutory benefits, the Company provides hospitalization insurance, life insurance, vacation/sick and emergency leaves, and computer, company and emergency loans to employees. It has a savings plan wherein an eligible employee may contribute 5-15% of his monthly basic salary. The Company, in turn, contributes a corresponding maximum of five percent to the member-employee's account in the savings plan.

(3) Major Risks Involved

(i) Risk Management Framework and Process

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

The Company's risk management process is a bottom-up approach, with each division mandated to conduct regular assessment of its risk profile and formulate action plans for managing identified risks. As Petron's operation is an integrated value chain, risks emanate from every process and some can cut across divisions. The results of these activities flow up to the Management Committee and eventually the Board through the Company's annual Business Planning process.

Oversight and technical assistance is likewise provided by corporate units with special duties. The Risk and Insurance Management Group is mandated with the overall coordination and development of the enterprise-wide risk management process. The Financial Risk Management Unit of the Treasurers Department is in charge of foreign exchange hedging transactions. The Transaction Management Unit of the Controller's Department provides backroom support for all financial transactions. The Corporate Technical & Engineering Services Group oversees compliance with the domestic and international standards set for health, safety and environment. The Internal Audit Department is tasked with the implementation of a risk-based auditing. PSTPL executes the hedging transactions involving crude and product imports on behalf of the Company.

(ii) Major Risks

The Company classifies a risk as a major risk if it assesses the risk event to both have a relatively high probability of occurring and a substantial adverse impact on the Company if the risk would occur. The major risks that the Company managed in 2012 were substantially the same as those in the previous year since there were no fundamental changes in the nature of the Company's operations. These risks were the following:

- Foreign exchange risk arising from the difference in the denomination of majority of revenues in Philippine Pesos against that for the bulk of costs in US Dollars. In addition, starting March 31, 2012, the Group's exposure to foreign exchange risks also arise from US dollar-denominated sales and purchases, principally of crude oil and petroleum products, of Petron Malaysia whose transactions are in Malaysian ringgit, which are subsequently converted into US dollar before ultimately translated to equivalent Philippine peso amount using applicable rates for the purpose of consolidation. Changes in the foreign exchange rate would result in the revaluation of key assets and liabilities, and could subsequently lead to financial losses for the Company.

- The risk of substantial disruptions in the Company's operations caused by accidents, process or machinery failure, human error or adverse events outside of human control. This risk could also include delays in the implementation of major capital expansion activities. These disruptions may result to injury or loss of life, as well as financial losses should these disruptions lead to product run-outs, facility shutdown, equipment repair or replacement, insurance cost escalation and/or unplanned inventory build-up.
- Profit margin and cash flow risk arising from fluctuations in the relative prices of input crude oil and output oil and petrochemical products. Changes in output and input prices, particularly when mismatched, may produce significant cash flow variability and may cause disruptions in the Company's supply chain, as well as higher financing expenses.
- Regulatory risk, arising from changes in national and local government policies and regulations that may result to substantial financial and other costs for the Company, either directly or indirectly.

Except as covered by the above mentioned specific risks, the Company has determined that none of the risk factors faced by any of its subsidiaries would be a major risk. These risk factors either have a low probability of occurring or have an insignificant potential impact. Thus, while subsidiary-specific risks were considered in the risk management process, these are considered relatively minor.

(iii) Management of Major Risks

(a) Foreign exchange risk

- The Company hedges its dollar-denominated liabilities using forwards, other derivative instruments and the generation of dollar-denominated sales. It avoids the creation of risk from derivative speculation by limiting the use of derivative instruments up to 100% of the value of the underlying dollar-denominated liabilities net of dollar-denominated assets.
- Dollar-denominated assets and liabilities and the resulting potential foreign exchange losses are recorded on a daily basis through software that monitors financial transactions under the Company's enterprise resource planning system. This allows real-time awareness and response to contain losses posed by foreign exchange exposure. Such software is also capable of tracking risk exposures arising from other market sensitive financial variables, such as interest rates and commodity prices.

(b) Risk of operational disruptions

- The risk of operational disruptions is most relevant to the refining unit since disruptions in these units can have severe and rippling effects.
- The Refinery Division and Petron Malaysia have been implementing programs designed to directly address the avoidance of operational disruptions through effective maintenance practices and the inculcation of a culture of continuous process improvement.
- The Company has a corporate-wide health, safety and environment program that likewise addresses the risk of operational disruptions.

- The Company has complied with and has been certified to be compliant with the strictest international standards for quality management system under ISO 9002:1994 in August 1998; and for environmental management system under ISO 14001:1996 in September 2004 and was upgraded and certified to ISO 14001:2004 in October 2006 up to present for its refinery operations. The refining division is currently implementing and maintaining an Integrated Management System composed of Quality Management System (ISO 9001:2008); Occupational Health and Safety Management System (OHSAS or ISO 18001:2007); Environmental Management System (ISO-14001:2004), certified and recertified since July, June and May 2009, respectively, up to present.

- A total of 32 locations are covered by ISO 9001 certification. Of these locations, a total of 20 have been migrated to the ISO 9001:2008 certification. As of March 2013, 23 locations had been certified to the Integrated Management Systems ("IMS") that includes ISO 9001:2008, ISO 14001:2004, and ISO18001:2007. Operations' commitment is to have all the depots certified to the integrated management standards by 20137.

- Furthermore, a total of 17 locations are compliant currently with International Ship and Port Facility Security ("ISPS") code certified by the Office of the Transport Security under the DOTC. ISPS certification is a requirement by the International Maritime Organization of the United Nations for all international vessels calling on international ports and for all ports accepting international vessels. Petron's shipping ports for both domestic and international vessels are ISPS certified.

(c) Profit margin and cash flow risk

- Margin hedging strategies are used for some US dollar-based contracts in order to eliminate the risk of profit margin compression due to changes in crude and product prices. A margin hedge simultaneously fixes the future dollar prices of Dubai crude oil and that of a selected product (contracted to be sold at the future date) manufactured from the crude.

- The Company endeavors to arrange long-term contracts for some of its fuel and petrochemical products whenever these are financially attractive. Long-term sales contracts provide a partial hedge on future cash flow uncertainty.

- The Company uses cash flow projection software that enables it to proactively respond to potential future cash flow imbalances. It likewise maintains access to credit lines in excess of typical requirements so that funds can be readily tapped in case of a cash flow squeeze.

(d) Regulatory risk

- The Company maintains strong lines of communication with its various counterparties in government and in the public arena, in both local and national levels. The Company uses these lines of communication to identify potential risk factors and respond to these in a proactive manner.

- The Company remains compliant with the various environmental standards set by the government.

(4) Contingent Liabilities

Petron is involved in certain cases, the material of which are discussed below:

(a) **Tax Cases**

- **Petron Corporation vs. Commissioner of Internal Revenue**
  SC-G.R. SP No. 204119-20
  Supreme Court
  Date Filed: December 2012

  Background: In 1998, the Company contested before the CTA the collection by the BIR of deficiency excise taxes arising from the Company's acceptance and use of TCCs worth ₱659 million from 1993 to 1997. In July 1999, the CTA ruled that, as a fuel supplier of companies registered with the BOI, the Company was a qualified transferee for the TCCs. The CTA ruled that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. The BIR appealed the ruling to the CA.

  On March 21, 2012, the CA promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR for deficiency excise taxes in 1998 based on a finding by the BIR that the TCCs used by Petron as payment were fraudulent. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

  Exposure: ₱1,107,542,547.08 plus 20% annual interest and 25% surcharge from April 22, 1998

  Relief sought on Appeal: The petition for review on *certiorari* filed by the BIR seeks the reversal of the decision of the CTA in favor of Petron, setting aside the BIR assessment in relation to Petron's payments of excise taxes through TCCs.

  Status: The petition for review on *certiorari* filed by the BIR is pending.

(b) **Pandacan Cases**

- **Petron Corporation v. The City of Manila, *et al.***
  Civil Case NO. 07-116700
  RTC Manila Br. 41
  Date Filed: February 8, 2007

  Background: The City Council passed the Manila Comprehensive Land Use Plan and Zoning Regulations of 2006 ("Ordinance No. 8119"), which was approved by Mayor Jose L. Atienza on June 16, 2006. Ordinance No. 8119 reclassified the area of the Pandacan depots from Industrial to High Density Residential/Mixed Use Zone. Ordinance No. 8119 gave non-conforming establishments, including the oil depots, seven (7) years to phase out or relocate.

  Shell and Chevron filed their complaint questioning Ordinance No. 8119. The Company, which was not allowed to intervene, filed a separate complaint on February 8, 2007, questioning the validity of the Manila City Ordinance No. 8119.

On August 24, 2012, the Regional Trial Court of Manila ("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 of Manila upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, Petron sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by Petron. Petron filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered the records to be forwarded to the CA.

Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

Relief sought: Nullification of Ordinance No. 8119

Status: The appeal filed by Petron on January 23, 2013 is pending.

- **Social Justice Society v. Alfredo S. Lim**
  SC G.R. No. 187836 Supreme Court

  Background: This is a petition for prohibition by SJS against Mayor Alfredo S. Lim for nullification of Ordinance No. 8187 which repealed both City Ordinance Nos. 8027 and 8119, effectively allowing the continued operation of the oil depots at Pandacan.

  On June 1, 2009, SJS officers filed a petition for prohibition against Mayor Lim before the SC, seeking the nullification of Ordinance 8187. The lawyers of the oil companies have met and would come up with a plan of action, including intervention once the SC directs the City of Manila to comment or gives due course to the petition. There has been no official action from the SC on this latest petition yet. The City filed its Comment on August 13, 2009. Petron filed a motion for leave to intervene dated November 27, 2009 and a comment-in-intervention dated November 27, 2009. The comment-in-intervention was allowed by the SC.

  Petron 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 (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron 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 Petron 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), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

  This case is consolidated with SC G.R. No. 187916.

  Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

  Status: The case is still pending.

- **Jose L. Atienza vs. Mayor Alfredo S. Lim**
  SC G.R. No. 187916 Supreme Court

  Background: This is the second petition filed against Ordinance 8187. Former Manila Mayor Atienza filed a petition for certiorari for the nullification of Ordinance No. 8187.

  On June 5, 2009, former Manila Mayor Lito Atienza, represented by the former City Legal Officer, filed his own petition with the SC seeking to stop the implementation of Ordinance 8187. The City of Manila filed its Comment on August 13, 2009.

  Petron 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 (5) years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron 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 Petron 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), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

  Exposure: No monetary claim. Adverse decision would mean closure of the terminals at Pandacan.

  Status: The case is still pending.

(c) **Guimaras Oil Spill**

- **In the Matter of the Sinking of the MT Solar I**
  SBMI No. 936-06
  Special Board of Marine Inquiry

  Background: Petron hired on a "single voyage basis" the vessel MT Solar I owned by Sunshine Maritime Development Corporation ("SMDC") for the transport of industrial fuel oil from the Petron Refinery in Bataan to Zamboanga. Petron, as a shipper of the cargo, conducted inspection of the vessel MT Solar I and likewise, relied on the documents presented by SMDC as carrier. Petron also relied on the implied warranties of SMDC as a carrier with respect to the seaworthiness of the vessel MT Solar I and other statutory/trading certificates issued by MARINA and other pertinent government agencies.

  SMDC, taking into consideration the vessel's trim, stability and draft, declared to Petron that the vessel MT Solar I can safely load approximately 13,500 barrels of cargo as stated in the Fixture Note, Notice of Readiness and Seaworthiness Certificate. On this basis and relying on the declaration of SMDC, Petron loaded the quantity as specified by SMDC. Unfortunately, the vessel MT Solar I sank off Guimaras when it encountered bad weather on or about August 11, 2006.

  In September 2006, the SBMI was created by the Philippine Coast Guard for the purpose of determining the administrative liability of the crew, owner of the vessel and other involved parties. The SBMI in its initial findings found Petron liable for allegedly overloading the vessel.

On November 21, 2006, Petron filed a Memorandum of Appeal with the DOTC, elevating the disputed ruling of the SBMI for review. The appeal to the DOTC of the finding of the SBMI that Petron was negligent and responsible for overloading the MT Solar I remained pending as of December 31, 2011.

Exposure: Considering the nature of this investigation, no potential liability exists for Petron at this point.

Relief sought: Reversal of the SBMI's initial finding that Petron was liable for allegedly overloading the vessel.

Status: The matter is still pending.

- **People of the Philippines vs. Clemente Cancio, et. al.**
  Criminal Case No. 12-1721
  RTC, Branch 65
  San Miguel, Jordan, Guimaras

  Background: Complaints for homicide and less serious physical injuries were filed by Dalida and Gacho on June 17, 2009 and for violation of the Clean Water Act by Oliver Chavez on July 29, 2009 against the Company represented by Messrs. Nicasio I. Alcantara and Khalid D. Al-Faddagh, its former Chairman and President, respectively, and the Captain and owner of MT Solar 1, as a result of the complainants' alleged exposure to and close contact with the waters along the shoreline and mangroves affected by the oil spill coming from the said vessel which sank on August 11, 2006.

  The respondents denied the allegations imputed against them, as the same accusations were already resolved and dismissed by the Provincial Prosecutor's Office of Guimaras in its resolution dated March 2, 2007.

  On July 14, 2011, the Provincial Prosecutor's Office of Guimaras issued a joint resolution finding probable cause to indict the owner and the Captain of MT Solar 1 and Messrs. Alcantara and Mr. Faddagh for violation of Section 28, Paragraph 5 in relation to Section 4 of the Clean Water Act. An information was filed before the Regional Trial Court of Guimaras (the "RTC Guimaras") on the basis of the said Joint Resolution.

  On March 28, 2012, the RTC Guimaras dismissed the information for lack of probable cause and for lack of jurisdiction over the offense charged.

  Status: The provincial prosecutor and the private prosecutor in the case filed a motion for reconsideration, which was denied by the RTC Guimaras on August 13, 2012. The external counsel for the Company advised that the case was no longer elevated to higher court but the entry of judgment has not yet been issued by the RTC Guimaras.

- **Rogelio Arsenal, Jr., et al. v. SMDC, Petron, et al.**
  Civil Case No. 09-0394;
  RTC Br. 65, Jordan, Guimaras

  Oliver S. Chavez, et al. v. SMDC, Petron, et al.
  Civil Case No. 09-0395;
  RTC Br. 65, Jordan, Guimaras

  Background: These are complaints for damages filed on August 6, 2009 by a total of 1,063 plaintiffs who allegedly did not receive any payment from the defendants of their claims for damages arising from the oil spill due to the sinking of MT Solar 1 on August 11, 2006. Total claims for both cases amount to ₱291.9 Million (₱286.4 Million and ₱5.5 Million).

  In the Arsenal case, respondents filed a motion to hear affirmative defenses based on lack of jurisdiction for non-payment of docket fees, prescription and lack of cause of action but it was denied. The respondents went to the CA on a petition for *certiorari*. The respondents filed with the CA a compliance with the resolution requiring submission of pleadings and orders. The complainants filed their comment on the petition and the respondents filed their reply to the said comment. The petition has been submitted for resolution by the CA.

  In the Chavez case, the respondents likewise filed the same motion based on the same grounds. The lower court also denied the motion so the respondents went to the CA on a petition for *certiorari*. The CA dismissed the petition for failing to attach the necessary pleadings and orders.

  Status: In the Arsenal case, the petition has been submitted for resolution by the CA.

  In the Chavez case, the respondents filed a motion for reconsideration which the CA denied in a resolution dated October 25, 2012.

(5) Securities of the Company

(a) Market Price of and Dividends on Company's Common Equity and Related Stockholder Matters

- Market Information

  The Company's common shares and preferred shares are traded at the PSE. The high and low sales prices of the common shares are indicated in the table below:

	Highest Close		Lowest Close	
Period	Price (in Peso)	Date	Price (in Peso)	Date
2013				
1st Quarter	14.40	March 12 & 15	10.38	January 10
2012				
1st Quarter	13.40	January 5	9.74	February 24
2nd Quarter	10.80	May 3	10.00	June 15 & 29
3rd Quarter	10.60	September 14 & 17	9.80	August 10 & 13
4th Quarter	11.04	October 8	10.34	December 21
2011				
1st Quarter	19.74	January 3	12.70	January 24
2nd Quarter	14.32	April 1	13.30	May 6 2011 & June 16 & 17
3rd Quarter	17.20	July 11	13.40	September 23
4th Quarter	14.98	October 12	12.46	December 14

As of March 31, 2013, the Company had a total of 155,676 stockholders. The price of the common shares of the Company as of March 27, 2013, the last trading day of March 2013, was ₱14.30 per share.

As of December 31, 2012, the total number of stockholders of the Company was 157,465. The price of the common shares of the Company on December 28, 2012, the last trading day of 2012, was ₱10.46 per share.

As of December 31, 2011, the total number of stockholders of the Company was 160,482. The price of the common shares of the Company as of December 29, 2011, the last trading day of 2011, was ₱12.60 per share.

- Holders

The list of the top 20 stockholders of the common shares and preferred shares of the Company as of March 31, 2012 is as follows:

COMMON SHARES

RANK	STOCKHOLDER NAME	NATIONALITY	COMMON	TOTAL SHARES	% OF O/S
1	SEA Refinery Corporation	Filipino	4,696,885,564	4,696,885,564	50.10%
2	San Miguel Corporation	Filipino	1,702,870,560	1,702,870,560	18.16%
3	Petron Corporation Employees' Retirement Plan	Filipino	1,386,156,097	1,386,156,097	14.79%
4	PCD Nominee Corp. (Filipino)	Filipino	791,629,832	791,629,832	8.44%
5	PCD Nominee Corp. (Non-Filipino)	Filipino	316,481,005	316,481,005	3.38%
6	Ansaldo Godinez & Co. Inc. FAO Mark V. Pangilinan	Filipino	8,000,000	8,000,000	0.09%
7	Ernesto Chua Chiaco &/or Margaret Sy Chua Chiaco	Filipino	6,000,000	6,000,000	0.06%
8	Margaret S. Chua Chiaco	Filipino	3,834,000	3,834,000	0.04%
9	Raul Tomas Concepcion	Filipino	3,504,000	3,504,000	0.04%
10	Genevieve S. Chua Chiaco	Filipino	2,717,000	2,717,000	0.03%
11	Ernesson S. Chua Chiaco	Filipino	2,713,500	2,713,500	0.03%
12	Social Security System	Filipino	2,708,651	2,708,651	0.03%
13	Ching Hai Go &/or Martina Go	Filipino	2,500,000	2,500,000	0.03%
14	Genevieve S. Chua Chiaco	Filipino	2,490,000	2,490,000	0.03%
15	Shahrad Rahmanifard	Iranian	2,000,000	2,000,000	0.02%
16	Ernesson S. Chua Chiaco	Filipino	1,450,000	1,450,000	0.02%
17	Kristine Chua Chiaco	Filipino	1,393,000	1,393,000	0.01%
18	Anthony Chua Chiaco	Filipino	1,378,000	1,378,000	0.01%
19	Benedict Chua Chiaco	Filipino	1,378,000	1,378,000	0.01%
20	South China Petroleum & Expl. Inc.	Filipino	1,147,500	1,147,500	0.01%
			8,937,236,709	8,937,236,709	95.33%

PREFERRED SHARES

RANK	STOCKHOLDER NAME	NATIONALITY	COMMON	TOTAL SHARES	% OF O/S
1	PCD Nominee Corporation (Filipino)	Filipino	95,218,700	95,218,700	95.22
2	Knights of Columbus Fraternal Association of the Phils., Inc.	Filipino	966,970	966,970	0.97
3	AFP Retirement and Separation Benefits System	Filipino	500,000	500,000	0.50
4	PCD Nominee Corporation (Non-Filipino)	Filipino	439,560	439,560	0.44
5	First Life Financial Co., Inc.	Filipino	340,000	340,000	0.34
6	Dominic Lim Sytin &/or Ann Marietta Lim Sytin	Filipino	300,000	300,000	0.30
7	The First Resources Management & Securities Corporation	Filipino	275,000	275,000	0.28
8	HSY Realty & Development Corporation	Filipino	150,000	150,000	0.15
9	Manila Bankers Life Insurance Corporation	Filipino	122,500	122,500	0.12
10	Securities Investors Protection Fund, Inc.	Filipino	110,000	110,000	0.11
11	Television International Corp.	Filipino	100,000	100,000	0.10
12	Ophelia L. Fernandez	Filipino	65,000	65,000	0.07
13	Knights of Columbus Fr. George J. Willmann Charities, Inc.	Filipino	60,000	60,000	0.06
14	Safeway Customs Brokerage, Inc.	Filipino	60,000	60,000	0.06
15	Vichelli Churchill Say	Filipino	59,000	59,000	0.06
16	Carmencita R. Gutierrez &/or Girme L. Gutierrez	Filipino	51,000	51,000	0.05
17	Armando Hun &/or Mary Kathlyn Khong Hun	Filipino	50,000	50,000	0.05
18	Reynaldo R. Sarmenta &/or Rosario G. Sarmenta	Filipino	50,000	50,000	0.05
19	Elena Tan Lao	Filipino	50,000	50,000	0.05
20	Empire Insurance Company	Filipino	50,000	50,000	0.05
			99,017,730	99,017,730	99.02

- Dividends

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

The dividends for the preferred shares is fixed at the rate of 9.5281% *per annum* calculated in reference to the offer price of ₱100 per share on a 30/360-day basis and shall be payable quarterly in arrears, whenever approved by the Board of Directors. If the dividend payment date is not a banking day, dividends will be paid on the next succeeding banking day, without adjustment as to the amount of dividends to be paid. Since the listing of the preferred shares in March 2010, cash dividends have been paid out in March, June, September, and December of each year.

In 2013, the Board of Directors approved a cash dividend of ₱0.05 per share to common shareholders as of the April 12, 2013 record date. Payment of the dividend shall be on May 8, 2013. A cash dividend of ₱2.382 per preferred share was also declared for the 2nd and 3rd quarters of 2013 based on the following record and payment dates: May 10, 2013 and August 8, 2013 record dates and June 5, 2013 and September 5, 2013 payment dates.

In 2012, the Board of Directors approved a cash dividend of ₱0.10 per share to common shareholders as of the April 2, 2012 record date. The dividends were paid on April 24, 2012. A cash dividend of ₱2.382 per preferred share was also declared for the 2nd and 3rd quarters of 2012 will also be made based on the following record and payment dates: May 18, 2012 and August 16, 2012 record dates and June 5, 2012 and September 5, 2012 payment dates.

Previously, the Board of Directors declared on February 2, 2011 a cash dividend of ₱2.382 per preferred share which was paid to preferred stockholders on March 7, 2011. Cash dividends of ₱2.382 per share were also paid to preferred stockholders on the following dates: June 6, 2011, September 5, 2011, December 5, 2011 and March 5, 2012. The Board of Directors likewise approved a cash dividend of ₱0.10 per share to common stockholders as of May 26, 2011, which was paid on June 6, 2011.

- Description of Petron's Shares

The Company stock consists of common shares and preferred shares, both with a par value of ₱1.00 per share. Common shares totaling 9,375,104,497 are voting shares while preferred shares, consisting of 100,000,000 issued and outstanding shares, are generally non-voting, except in cases provided by law.

- Stock Ownership Plan

Petron currently does not have a stock ownership plan or program. In 1994, when Petron's initial public offering was undertaken, a special secondary sale of Petron's shares was offered to its employees. The entitlement of shares at the listing price of ₱9.00 per share was made equivalent to the employee's base pay factored by his/her service years with Petron. Petron's executive officers, except the Chairman, the President and the Vice President for Corporate Planning, were entitled to own Petron shares under this stock ownership plan. Preparatory to the listing of the Company's preferred shares, availment of said shares was offered to employees from February 15 to 19, 2011.

(b) Recent Sales of Unregistered or Exempt Securities Including Recent Issuances of Securities Constituting an Exempt Transaction

Under the Code and the Amended SRC Rules, 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 securities discussed below were either offered in the Philippines to institutional lenders not exceeding 19 or to not more than 19 non-qualified buyers and/or to any number of qualified buyers as defined in the Code. Thus, the subject securities were either exempt securities pursuant to Section 9 of the Code and Rule 9.2 of the Amended SRC Rules or their offer and sale qualified as an exempt transaction pursuant to Sections 10.1 (k) and 10.1(l) of the Code and Rule 10.1 of the Amended SRC Rules. In the case of the subject exempt transactions, a confirmation of exemption from the SEC that the offer and sale of the securities in the Philippines qualify as an exempt transaction under the Code was not required to be, and had not been, obtained. Nevertheless, in compliance with the Amended SRC Rules, notices of exemption were filed after the issuance of the securities qualifying as exempt transactions.

The securities discussed below were not 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.

1. Fixed Rate Corporate Notes

- Fixed Rate Corporate Notes in 2009

   a. On June 5, 2009, the Company issued five (5)- and seven (7)-year Fixed Rate Corporate Notes totaling ₱10 billion, consisting of:

      i. Series A Notes amounting to ₱5.2 billion and having a maturity of five (5) years from the issue date; and
      ii. Series B Notes amounting to ₱4.8 billion and having a maturity of seven (7) years from the issue date.

   b. The arrangers were BPI Capital, the Development Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited and ING Bank NV - Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.

   c. The offer price was at 100%.

   d. As the notes described herein were offered to not more than 19 non-qualified buyers and/or to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

- Fixed Rate Corporate Notes in 2011

    a. On October 25, 2011, the Company issued Fixed Rate Corporate Notes totaling ₱3.6 billion, broken down into the following series:

        i. Series A Notes amounting to ₱0.69 billion and having a maturity of seven (7) years from the Issue Date; and
        ii. Series B Notes amounting to ₱2.91 billion and having a maturity of 10 years from the Issue Date

    b. The arranger was ING Bank NV Manila Branch. The notes were sold to primary institutional lenders not exceeding 19.

    c. The offer price was at 100%.

    d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC.

2. ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars

    a. On November 10, 2010, the Company issued the ₱20 Billion 7.0% PHP-Denominated Notes Due 2017 Payable in U.S. Dollars.

    b. The arrangers were Credit Suisse, Deutsche Bank, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. The notes were sold to various investors.

    c. The offer price was at 100%.

    d. As the notes described herein were offered to not more than 19 non-qualified buyers and to any number of qualified buyers in the Philippines, such notes were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. But, in compliance with the requirements of the Amended SRC Rules, a notice of exemption for the transaction was filed on November 22, 2010. The subject notes were listed on the Singapore Exchange on November 11, 2010.

3. US$750 Million Undated Subordinated Capital Securities

    a. On February 6, 2013, the Company issued US$500 million undated subordinated capital securities (the "February 6 Issuance"). On March 11, 2013, the Company further issued US$250 million undated subordinated capital securities, which were consolidated and formed a single series with, the February 6 Issuance (the "March 11 Issuance").

    b. The joint lead managers were Deutsche Bank AG, Singapore Branch, Standard Chartered Bank, The Hongkong and Shanghai Banking Corporation Limited, and UBS AG, Hong Kong Branch.

    c. The offer price for the February 6 Issuance was at 100% and for the March 11 Issuance was at 104.25% plus an amount corresponding to accrued distributions on the capital securities from, and including, February 6, 2013 to, but excluding, March 11, 2013.

d. As the capital securities described herein were offered qualified buyers in the Philippines, such securities were considered exempt securities and no confirmation of exemption from the registration requirements of the Code was required to be filed with the SEC. In compliance with the requirements of the Amended SRC Rules, however, notices of exemption for the transactions were filed on February 12, 2013 for the February 6 Issuance and on March 18, 2013 for the March 11 Issuance. The capital securities were listed at the Stock Exchange of Hong Kong Limited on February 7, 2013 in relation to the February 6 Issuance and on March 12, 2013 in connection with the March 11 Issuance.

(6) Corporate Governance

The Company adopted its CG Manual on July 1, 2002. In compliance with SEC Memorandum Circular No. 6, Series of 2009, amending SEC Memorandum Circular No. 2, Series of 2002, the Company further adopted revisions to the CG Manual which were approved by the Board of Directors on October 21, 2010. Further revisions to the CG Manual were also undertaken and approved by the Board of Directors on March 2, 2011.

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

The Board of Directors and the Management of the Company should exercise sound judgment in reviewing and directing how the Company implements the requirements of good corporate governance. Pursuant to this mandate, the Board of Directors appointed Atty. Joel Angelo C. Cruz, Vice President - Office of the General Counsel and Corporate Secretary, as the Compliance Officer of the Company tasked to monitor compliance with the CG Manual and applicable laws, rules and regulations.

With the election of Mr. Reynaldo G. David and Retired Supreme Court Chief Justice Artemio V. Panganiban as independent directors of the Company, the election of the members of the Audit, Compensation, Nomination and Executive Committees, the conduct of regular board meetings and board committee meetings, the faithful attendance of and proper discharge of duties and responsibilities of the directors at such meetings, the attendance of all the directors at a corporate governance seminar, and adherence to applicable laws and regulations pertaining to its business operations, including applicable accounting standards and disclosure requirements, the Compliance Officer has certified that, in 2012, the Company had substantially adopted all the provisions of the CG Manual.

Since 2005, the Institute of Corporate Directors ("ICD"), in collaboration with the SEC, the PSE, and the Ateneo School of Law has consistently recognized the Company as among the top publicly-listed companies with good corporate governance.

The Company is committed in pursuing good corporate governance by keeping abreast of new developments in and leading principles and practices on good corporate governance, including through the attendance at briefings conducted by the ICD for the new ASEAN Corporate Governance Scorecard. The Company also continuously reviews its own policies and practices as it competes in a continually evolving business environment while taking into account the Company's corporate objectives and the best interests of its stakeholders and the Company.

To further instill good governance in the Company, the Company will continue to coordinate with accredited providers for the attendance of the directors and officers in more extensive corporate governance programs to keep them updated with the latest developments in and best practices on good corporate governance.

(7) List of Directors

The list of the directors of the Company and the attendance at board meetings as of December 31, 2012 are set out as follows:

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

*Mr. Ferdinand K. Constantino was replaced by Mr. Lubin B. Nepomuceno on February 19, 2013.

(8) Financial Statements

A copy of the audited consolidated financial statements of the Company as of December 31, 2012, including the Company's Statement of Management's Responsibility, is attached hereto as Annex C.

[Audited Financial Statements follow on next page]

ANNEX C

2012 Audited Financial Statements (Petron & Subsidiaries)