April 15, 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 find attached the Annual Report (SEC Form 17-A) of the Company for 2012 to be filed simultaneously with the Securities and Exchange Commission today.

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

1 2 - 1 2
Month Day
Fiscal Year

SEC FORM 17-A
FORM TYPE

Month Day
Annual Meeting

N/A
Secondary License Type, If Applicable

Dept. Requiring this Doc.

N/A
Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

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

REPUBLIC OF THE PHILIPPINES
OFFICE OF THE PRESIDENT

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2012
   Date of Report (Date of earliest event reported)

2. SEC Identification Number 31171 3. BIR Tax Identification No. 000-168-801

4. PETRON CORPORATION
   Exact name of issuer as specified in its charter

5. Philippines
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code:

7. SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City 1550
   Address of principal office Postal Code

8. (0632) 886-3888; 884-9200
   Issuer's telephone number, including area code

9. None
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding (as of December 31, 2012)
Common Stock	9,375,104,497 shares
Preferred Stock	100,000,000 shares
Total Liabilities	₽203,062 million

....

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [X]   No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange	Common Stocks Preferred Stocks

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [X]   No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [X]   No []

13. The aggregate market value of the voting stock held by non-affiliates of the Registrant *(i.e.,* other than San Miguel Corporation, SEA Refinery Corporation, Petron Corporation Employees' Retirement Plan and directors and executive officers of Petron Corporation) as of December 31, 2012 was ₱16,622,589,447.86 based on the price of ₱10.46/per share as of the last trading day of the year, December 28, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

N o n e

PART I - BUSINESS

(A) Description of Business

(1) Business Development

(i) The Company

Petron Corporation ("Petron" or the "Company") 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"), then one of the Company's major shareholders since 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, San Miguel Corporation ("SMC") and SEA BV entered into an Option Agreement (the "Option Agreement") granting SMC the option to buy the entire ownership interest of SEA BV in its local subsidiary 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 articles of incorporation of the Company (the "Company's Articles") and its by-laws (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 Securities and Exchange Commission ("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. In 2012, NVRC acquired 100% of Parkville Estates and Development Corporation and 60% of Mariveles Landco Corporation.

- 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.

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.

Fifty-five (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, and brown bag session.

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 ("CSR")

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 Petron

(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 its refinery 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:

New Products

- 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 Pilipinas Shell Petroleum Corporation ("Shell") and Chevron Philippines ("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 Petroleum & Gas Corporation ("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. By way of update, 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. As updates, Avgas 100 LL Blue imports were awarded to SIETCO for January to December 2013 and 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

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 (5%) to the member-employee's account in the savings plan.

(xv) 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 of Directors 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 promote 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 an update, 23 locations had been certified to the Integrated Management Systems ("IMS") that includes ISO 9001:2008, ISO 14001:2004, and ISO18001:2007 as of March 2013. Operations' commitment is to have all the depots certified to the integrated management standards by 2013.
- 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.

(B) Description of Property

Petron owns the largest petroleum refinery complex in the Philippines located in Limay, Bataan. This refinery has a crude distillation capacity of 180,000 barrels per day ("BPD"). It has three (3) crude distillation units, a vacuum pipestill unit, a petrofluidized catalyst cracking unit, a continuous catalyst regeneration reformer unit, a semi-regenerative reformer unit, two (2) naphtha hydrotreaters, two (2) LPG treaters, an isomerization unit, benzene, toluene and mixed xylene recovery units, a propylene recovery unit, a kerosene merox treater, two (2) gas oil hydrotreater units, a sulfur recovery unit, a nitrogen plant, a caustic regeneration unit, waste water treatment facilities, eight (8) steam generators, five (5) turbo generators, flare and safety relieving facilities, bulk asphalt receiving facilities, several crude storage tanks, as well as a number of refined petroleum products storage tanks. It has its own piers and other berthing facilities, one of which can accommodate very large crude carriers.

Petron also operates an extensive network of terminals and bulk storage and satellite facilities and LPG plants which are located in Luzon, Visayas and Mindanao. Its major terminals and plants are in Limay, Bataan; Pandacan, Manila; Rosario, Cavite; Ugong, Pasig City; Mabini, Batangas; Poro Point, San Fernando, La Union; Mandaue City; Lapuz, Iloilo City; Bacolod City; Tagoloan, Misamis Oriental; Sasa, Davao City; and Zamboanga City. Its bulk plants and sales offices in Luzon are located in Aparri, Cagayan; Calapan, Oriental Mindoro; Pasacao, Camarines Sur; Legaspi City, Albay; Puerto Princesa, Palawan; San Fernando City, Pampanga, and Navotas, Metro Manila. In the Visayas and Mindanao, the bulk plants and sales offices are in Amlan, Negros Oriental; Culasi, Roxas City; Linao, Ormoc City; Anibong, Tacloban City; Masbate; Isabel, Leyte; Tagbilaran City, Bohol; Iligan City; Jimenez, Misamis Occidental; Bawing, General Santos City and Nasipit, Agusan del Norte.

Petron has airport installations at JOCASP, NAIA, Pasay City, Laoag City, Lumbia, Cagayan de Oro and Davao City.

Petron leases from PNOC and NVRC on renewable 25-year terms the parcels of land where the PBR, the terminals, the bulk plants and the service stations are located. Petron's lease agreements for lands owned by other private persons vary as to their terms and conditions, including the period of lease.

The lease agreement of NVRC with PNOC on refinery property is effective until 2039, renewable for another 25 years upon mutual agreement of the parties. Lease charges on refinery facilities escalated at three percent (3%) per annum until 2011. The leased premises are subject to reappraisal every fifth year of the rental period beginning 2012. The amount equivalent to five percent (5%) of the reappraised value of the property shall be the new rental rate, subject to an annual three percent (3%) escalation for the four (4) years following the appraisal. Lease payments amounted to ₱102 million in 2012.

Petron anticipates that it will lease desirable lots from NVRC and third parties to be developed as service stations in the next 12 months.

(C) Contingent Liabilities

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

1. 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 Court of Tax Appeals ("CTA") the collection by the Bureau of Internal Revenue ("BIR") of deficiency excise taxes arising from the Company's acceptance and use of tax credit certificates ("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 Court of Appeals ("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.

- **Commissioner of Internal Revenue v. Petron Corporation**
  G. R. 185568
  Supreme Court
  Date Filed: January 22, 2009

  Background: In May 2002, the BIR issued a collection letter for deficiency taxes of ₽254 million plus interest and charges for the years 1995 to 1998, as a result of the cancellation of TCCs and tax debit memos ("TDMs") by the Department of Finance. Petron protested this assessment on the same legal grounds used against the tax assessment issued by the BIR in 1999. The Company elevated the protest to the CTA.

  On May 4, 2007, the CTA (2nd Division) denied Petron's petition for review for lack of merit. Petron was ordered to pay the BIR the reduced amount of ₱601 million representing Petron's alleged deficiency excise taxes for the taxable years 1995 to 1998. In addition, Petron was ordered to pay the BIR 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed to the CTA *en banc* through a petition for review filed on October 1, 2007. On December 3, 2008, the CTA *en banc* reversed the unfavorable decision of the CTA (2nd Division). The Commissioner of Internal Revenue filed a petition for review with the Supreme Court. On March 21, 2012, the Supreme Court promulgated a decision in favor of Petron and against the BIR affirming the decision of the CTA *en banc* finding that the BIR had no legal basis to assess the excise taxes or any penalty surcharge or interest thereon as the Company was an innocent transferee for value of the subject TCCs which had therefore properly filed its tax returns, and paid the appropriate taxes using such TCCs, for the years 1995 to 1998. A motion was subsequently filed by the Office of the Solicitor General seeking for the reconsideration of the above decision. On July 11, 2012, the Supreme Court issued a resolution upholding its decision and denying the Office of the Solicitor General's motion for reconsideration with finality.

  On September 5, 2012, the decision in favor of Petron became final and executory.

  Status: The decision in favor of Petron has become final and executory on September 5, 2012.

2. Pandacan Cases

a. Petron Corporation v. The City of Manila, *et al.*
Civil Case N0. 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. As an update, 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.

b. Social Justice Society ("SJS") 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 Supreme Court ("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.

c. 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 Jose L. 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.

3. Guimaras Oil Spill

a. 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 Special Board of Marine Inquiry ("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 Department of Transportation and Communication ("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, 2012.

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.

b. 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.

c. **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 m).

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.

[Rest of page intentionally left blank; "Securities of Registrant" follows on next page]

PART II – SECURITIES OF THE REGISTRANT

(A) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters

(1) Market Information

Petron's common shares are traded at the PSE. The high and low sales prices of the common shares for 2011 and 2012 are indicated in the table below:

	Highest Close		Lowest Close	
Period	**Price (in Peso)**	**Date**	**Price (in Peso)**	**Date**
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 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.

(2) Holders

The list of the top 20 stockholders of the common shares and preferred shares of the Company as of December 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	864,645,167	864,645,167	9.22
5	PCD Nominee Corp. (Non-Filipino)	Filipino	235,951,950	235,951,950	2.52
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	7,780,000	7,780,000	0.08
8	Ernesto Chua Chiaco	Filipino	6,550,000	6,550,000	0.07
9	Raul Tomas Concepcion	Filipino	3,504,000	3,504,000	0.04
10	Ernesto Chua Chiaco	Filipino	3,450,000	3,450,000	0.04
11	Ching Hai Go &/or Martina Go	Filipino	2,500,000	2,500,000	0.03
12	Genevieve S. Chua Chiaco	Filipino	2,490,000	2,490,000	0.03
13	Allied Banking Corp.	Filipino	2,145,000	2,145,000	0.02
14	Shahrad Rahmanifard	Iranian	2,000,000	2,000,000	0.02
15	Ernesson S. Chua Chiaco	Filipino	1,450,000	1,450,000	0.02
16	South China Petroleum & Expl. Inc.	Filipino	1,147,500	1,147,500	0.01
17	Edwin Francis Lim Tan	Filipino	1,100,000	1,100,000	0.01
18	Eric Ruben L. Tan	Filipino	1,100,000	1,100,000	0.01
19	United Realty Corp.	Filipino	1,000,000	1,000,000	0.01
20	Allied Banking Corporation	Filipino	765,500	765,500	0.01
			8,931,491,338	8,931,491,338	95.27

PREFERRED SHARES

RANK	STOCKHOLDER NAME	NATIONALITY	COMMON	TOTAL SHARES	% OF O/S
1	PCD Nominee Corporation (Filipino)	Filipino	95,201,900	95,201,900	95.20
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	430,460	430,460	0.43
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	Marinneth T. Ngo &/or Jims T. Ngo	Filipino	110,000	110,000	0.11
11	Securities Investors Protection Fund, Inc.	Filipino	110,000	110,000	0.11
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	Empire Insurance Company	Filipino	50,000	50,000	0.05
18	Armando Hun &/or Mary Kathlyn Khong Hun	Filipino	50,000	50,000	0.05
19	Reynaldo R. Sarmenta &/or Rosario G. Sarmenta	Filipino	50,000	50,000	0.05
20	Elena Tan Lao	Filipino	50,000	50,000	0.05
			99,001,830	99,001,830	99.00

(3) Dividends

The Corporate Governance Manual ("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 2011, 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.

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.

By way of update, 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.

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

Under the Securities and Regulation Code (the "Code") and the Amended Implementing Rules and Regulations of the Securities Regulation Code (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. By way of update, the securities offered in 2013 until the date of this annual report are also described below.

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 with 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.

(B) 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.

(C) 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, 2010.

(D) Public Ownership

Based on the reports provided by SMC Stock Transfer Services Corporation, the stock transfer agent of the Company, 16.75% of the outstanding common shares of the Company was owned by the public as of December 31, 2012 and March 31, 2013 in compliance with the minimum public ownership set by the PSE and the SEC. Attached as Annexes "C-1" and "C-2" are copies of the relevant public ownership reports submitted by the Company to the PSE on January 11, 2013 and April 5, 2013, respectively.

[Rest of page intentionally left blank; "Management's Discussion and Analysis of Financial Conditions and Other Information" follows on next page]

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 "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

2012 vs. 2011

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 (MM**B) 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 **₱ 115 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 of the LPG business of 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 BIR issued a deficiency excise tax assessment against the Company relating to the Company's use of P659 million worth of TCC 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 CTA. In July 1999, the CTA ruled that, as a fuel supplier of 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 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 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.

Financial Statements

The 2012 audited financial statements of Petron and its subsidiaries and the Statement of Management Responsibility are attached hereto as Annex "A", with the Supplementary Schedules as Annex "B".

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.

AUDIT COMMITTEE REPORT

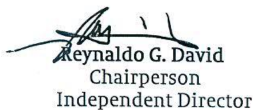
The Board of Directors
Petron Corporation

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.

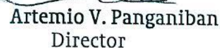
In the performance of our responsibilities, we report that in 2012:

- 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.

(B) **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There are no changes in and disagreements with Accountants on Accounting and Financial Disclosure.

[Rest of page intentionally left blank;
"Management and Certain Security Holders" follows on next page]

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDERS

(A) Directors, Executive Officers and Board Committees of the Registrant

(i) Director and Executive Officers

Listed below are the 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 annual report.

Directors

The following were the directors of the Company as of December 31, 2012:

Name	Period Served
Ramon S. Ang	January 8, 2009- present
Eric O. Recto	July 31, 2008 – present
Eduardo M. Cojuangco, Jr.	January 8, 2009-present
Estelito P. Mendoza	January 8, 2009-present
Bernardino R. Abes	July 31, 2001- present
Roberto V. Ongpin	July 31, 2008-present
Ron W. Haddock	December 2, 2008-present
Ferdinand K. Constantino	August 13, 2010 – February 19, 2013
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

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

Set out below are the profiles of the directors of the Company holding office as such as of December 31, 2012 and Mr. Nepomuceno, the director newly elected on February 19, 2013.

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 SMC; President and Chief Operating Officer of Philippine Airlines, Inc. ("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 Top Frontier Investment Holdings Inc.; 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 director of MERALCO, 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.

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.; Corporate Secretary of GSMI, Top Frontier Investment Holdings Inc., and other subsidiaries and affiliates of SMC; and Director of various other local and offshore subsidiaries of SMC. Mr. Jacinto has served as a Director and Corporate Secretary of United Coconut Planters Bank, 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 a 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.

Ferdinand K. Constantino, Filipino, 61 years old, served as a non-executive director of the Company from August 13, 2010 until February 19, 2013. He has been a director of SMC since 2010 and the Senior Vice President/Chief Finance Officer and Treasurer of SMC since 2001. He holds directorships in SMB, San Miguel Yamamura Packaging Corporation, SMC Global Power Holdings Corp., Top Frontier Investment Holdings Inc., and GSMI and is the President of Anchor Insurance Brokerage Corporation. Of the companies in which Mr. Constantino currently holds directorships, SMB and GSMI are also listed with the PSE. Mr. Constantino previously served as Chief Finance Officer and Treasurer of SMB, (2007–2009)

and San Miguel Beer Division (1999–2005); Comptroller of SMC (1997-1999); Finance Director of San Miguel Brewing Group (1994-1997); and Chief Finance Officer of MERALCO (2009). He has held directorships in various subsidiaries of SMC, local and offshore, during the last five (5) years. He holds a Bachelor of Arts degree in Economics from the University of the Philippines and took graduate courses in Economics and Business from the same 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.

Executive Officers

The following are the key executive officers of the Company:

Name	Position	Date of Election/ Period Served
Ramon S. Ang	Chairman and Chief Executive Officer	January 2009-present
Eric O. Recto	President	August 2008- February 19, 2013
Lubin B. Nepomuceno	Senior Vice President and General Manager	September 2009-present
	President	February 19, 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 (Vice President effective February 1, 2013)

Set out below are the profiles of the current executive officers of the Company not otherwise included in the profiles of the directors above.

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 February 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.

(ii) Board Committees

The Company has Executive, Compensation, Audit and Nomination Committees constituted in accordance with the principles of good corporate governance and pursuant to the Company's By-Laws.

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

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

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

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

  The Nomination Committee is responsible for pre-screening and shortlisting candidates nominated to become members of the Board of Directors and other appointments that require board approval to ensure that the director-candidates meet the criteria for election, *i.e.,* they have the qualifications and none of the disqualifications set out in the law and in the CG Manual. The Nomination Committee, in consultation with the management committee and the under the supervision of the Board of Directors, also redefines the role, duties and responsibilities of the Chief Executive Officer of the Company by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times. It is also the responsibility of the Nomination Committee to assess the effectiveness of the processes and procedures of the Board of Directors in the election or replacement of directors.

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

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

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

  Under the CG Manual, the Compensation Committee is responsible for considering and approving salary structures for individuals in the positions of Vice President (or its equivalent) and above, promotions to positions of Division Head and the salary increases to be granted concurrently with such promotions, and other compensation policy matters such as the adoption, modification and interpretation of corporate benefit plans. The Compensation Committee also ensures that the Company's annual reports, information and proxy statements, and such similar documents disclose the fixed and variable compensation received by its directors and top officers for the preceding fiscal year in accordance with the requirements of the law.

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

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

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

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

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

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

(3) Significant Employees

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

(4) Family Relationships

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.

(5) 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.

(B) Executive Compensation

Standard Arrangements. Petron's executive officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of 12 months base pay. They also receive whatever gratuity pay the Board of Directors extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not executive officers are elected for a term of one year. They receive remuneration for 12 months in Director's fees and gas allowance, in addition to compensation on a per meeting participation.

Other Arrangements. There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

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

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.

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 (including the estimate for 2013):

(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	-

By way of update, 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.

(C) Security Ownership of Certain Beneficial Owners and Management as of December 31, 2012

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

Name of Stockholder	Number of Shares	% of Total Outstanding Shares
SEA Refinery Corporation	4,696,885,564	50.10%
Petron Corporation Employees' Retirement Fund	1,386,156,097	14.79%
San Miguel Corporation	1,702,870,560	18.16%
PCD Nominee Corp. (Filipino)	864,645,167	9.22%

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 holding office as such as of December 31, 2012 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	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	Ferdinand K. Constantino	Filipino	-	-	0.00%
Preferred			20,000	I	0.00%
Common	Virgilio S. Jacinto	Filipino	1,000	D	N.A.
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	Lubin B. Nepomuceno	Filipino	5,000	D	0.00%
Preferred			-	-	N.A.
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	425,500		0.00%

As of December 31, 2012, the directors and executive officers of the Company owned 34,585 common shares and 425,500 preferred shares. None of the directors and executive officers of the Company owns 5% or more of the outstanding capital stock of the Company.

(2) Voting Trust Holders of 5% or more

None of the directors and officers owns 5% or more of the outstanding capital stock of the Company. The Company is not also aware of any person holding 5% or more of the Company's outstanding shares under a voting trust agreement.

(3) 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.

(D) Certain Relationships and Related Transactions

The major stockholders of the Company as of December 31, 2012 were 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.

(E) 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 (with the attendance listed in the table below), 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.

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

	Directors	**Meeting Dates**					**Attendance at Corporate Governance Seminar**
		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.

[Rest of page intentionally left blank; “Exhibits and Schedules” follows on next page]

PART V - EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

Below is a list of the annexes to this SEC Form 17-A and the reports on SEC Form 17-C and the press releases submitted to the SEC in 2012 until the date of this report.

Annexes

1. Annex “A” - Audited Financial Statements
2. Annex “B” - Index to Financial Statements & Supplementary Schedules
3. Annex “C-1” - Public Ownership Report as of December 31, 2012
4. Annex “C-2” - Public Ownership Report as of March 31, 2013

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were made for year 2012 until the date of this annual report:

Disclosure Date	Item Description
January 5, 2012	Statement on the record of attendance of the Board of Directors at the board meetings Held in 2012
January 13, 2012	Confirmation of the Executive Committee approval of the Company’s investment in the ExxonMobil downstream business in Malaysia
January 18, 2012	Petron Corporation Employees’ Retirement Plan’s sale of 695,300,000 common shares in Petron
March 2, 2012	Approval of further revisions to the Revised Corporate Governance Manual of Petron
March 19, 2012	Petron Oil & Gas International Sdn Bhd’s Notice of a Mandatory Take-Over Offer to acquire 94,500,000 shares of Esso Malaysia Berhad
April 4, 2012	Completion of the acquisition by Petron Oil & Gas International Sdn Bhd of 65% of Esso Malaysia Berhad
May 10, 2012	Matters approved at the board meeting held: 1. 1st Quarter 2012 Financial Report 2. Re-Appointment of Manabat Sanagustin & Co. as independent auditor for 2012
May 15, 2012	Matters approved at the 2012 Annual Stockholders’ Meeting held: 1. Appointment of Manabat Sanagustin & Co. as independent auditor for 2012 2. Election of Directors for 2012-2013

	Matters approved at the 2012 Organizational Meeting held: 1. Appointment of Members to Executive Committee, Compensation Committee, Audit Committee and Nomination Committee 2. Election of Officers for 2012-2013
May 15, 2012	Closing of the unconditional mandatory take-over offer by Petron Oil & Gas International Sdn Bhd to acquire the remaining ordinary shares in Esso Malaysia Berhad
July 5, 2012	Appointment of Mr. Efren P. Gabrillo as Vice President for Controllers effective July 1, 2012
August 9, 2012	Matters approved at the board meeting held: 1. Confirmation by the Board of Directors of the appointment of Mr. Efren P. Gabrillo as Vice President-Controllers, Mr. Dennis M. Floro as Assistant Vice President-Supply, Ms. Rosario D. Vergel de Dios as Assistant Vice President-Human Resources, Mr. Conrado S. Rivera, Jr. as Assistant Vice President-LPG, Lubes & Greases, Cards and Mr. Nolan L. Rada as Assistant Vice President-Reseller Trade 2. YTD June 2012 Financial Performance Report 3. Declaration of cash dividend for preferred shares
October 5, 2012	Compliance by the Company with SEC Memorandum Circular No. 4, Series of 2012 *(Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange)*
October 5, 2012	Issuance by the SEC of the Certificate of Filing of Amended Articles of Incorporation and the Amended Articles of Incorporation dated September 20, 2012
December 5, 2013	Petron Corporation Employees' Retirement Plan's sale of 195,000,000 common shares of Petron
January 22, 2013	Approval by the Executive Committee of the issuance of US Dollar-Denominated Undated Subordinated Capital Securities and the release of the Preliminary Offering Circular relating to the proposed issuance of US Dollar-Denominated Undated Subordinated Capital Securities
January 28, 2013	Certification on the compliance by the Company with its Manual on Corporate Governance for 2012
January 28, 2013	Statement on the record of attendance of the Board of Directors at the board meetings held in 2012
January 29, 2013	Release of the Supplement to the Preliminary Offering Circular relating to the proposed issuance of US Dollar-Denominated Undated Subordinated Capital Securities

January 30, 2013	Release of the Final Offering Circular relating to the proposed offering of US Dollar-Denominated Undated Subordinated Capital Securities
February 6, 2013	Completion of the issuance of US Dollar-Denominated Undated Subordinated Capital Securities
February 19, 2013	Election of Mr. Lubin B. Nepomuceno as Director and President and Mr. Eric O. Recto as Vice Chairman
March 7, 2013	Release of the Preliminary Offering Circular and the Final Offering Circular relating to the proposed issuance of additional US Dollar-Denominated Undated Subordinated Capital Securities
March 13, 2013	Completion of the issuance of additional US Dollar Undated Subordinated Capital Securities
March 18, 2013	Matters approved at the board meeting held: 1. Holding of the Annual Stockholders' Meeting on May 21, 2013 2. Nominees for the Election to the Board of Directors 3. 2012 Audited Financial Statements 4. Cash Dividend for Preferred Shareholders 5. Cash Dividend for Common Shareholders 6. Confirmation of Appointment of Atty. Joel C. Cruz as Vice President – General Counsel and Ms. Magnolia D. Uy as Assistant Vice President-Market Planning, Research, & Sales Information (National Sales Division)
April 1, 2013	Corporate Governance Guidelines Disclosure Template for 2012

Press Releases

The following press releases were made for year 2012 until the date of this annual report:

1. Sale of Petron Corporation Employees' Retirement Plan Shares in Petron
2. Petron Corporation Posts ₱2.5 Billion for First Quarter 2012
3. Petron Posts ₱432 Million Income for 1st Half of 2012
4. Petron Revenues Up To P424.8 Billion, Posts P2.3 Billion Income for 2012

[Rest of page intentionally left blank; signature page follows on next page]

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on APR 15 2013 April 2013.

By:

RAMON S. ANG
Chairman/Chief Executive Officer

LUBIN B. NEPOMUCENO
President

EFREN P. GABRILLO
Vice President - Controllers

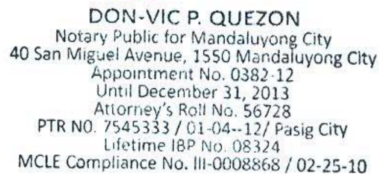
JOEL ANGELO C. CRUZ
Vice President - General Counsel
& Corporate Secretary

EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

SUBSCRIBED AND SWORN to before me this APR 15 2013 day of April 2013 at Mandaluyong City, affiants exhibiting to me their Competent Evidence of Identity as follows:

Name	Passport/CTC #	Date of Issue	Place of Issue
RAMON S. ANG	XX0748364	7-11-2011	Manila
LUBIN B. NEPOMUCENO	EB5027219	3-29-12	Manila
EFREN P. GABRILLO	EB6962099	12-17-12	Manila
JOEL ANGELO C. CRUZ	EB6976457	12-19-12	Manila
EMMANUEL E. ERAÑA	EB1133575	10-7-10	Manila

Doc. No. 32;
Page No. 8;
Book No. II;
Series of 2013.



DON-VIC P. QUEZON
Notary Public for Mandaluyong City
40 San Miguel Avenue, 1550 Mandaluyong City
Appointment No. 0382-12
Until December 31, 2013
Attorney's Roll No. 56728
PTR NO. 7545333 / 01-04--12/ Pasig City
Lifetime IBP No. 08324
MCLE Compliance No. III-0008868 / 02-25-10

Annex "A"

Audited Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

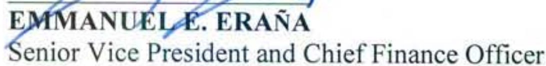
The management of **Petron Corporation** (the **"Company") and Subsidiaries**, is responsible for the preparation and fair presentation of the financial statements as at and for the years ended **December 31, 2012 and 2011**, including the additional components attached therein, in accordance with the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

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

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

RAMON S. ANG
Chairman and Chief Executive Officer

LUBIN B. NEPOMUCENO
President



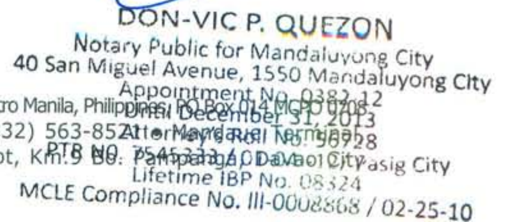
EMMANUEL E. ERAÑA
Senior Vice President and Chief Finance Officer

Signed this 18th day of March 2013

SUBSCRIBED AND SWORN TO before me, a Notary Public for and in the City of Mandaluyong, Metro Manila, this APR 12 2013, affiants being personally known to me and signed this instrument in my presence and avowed under penalty of law to the whole truth of contents thereof.

Passport No. XX0748364 7/11/11 DFA mla
Passport No. EB5027219 3/29/12 DFA mla
Passport No. EB 1133575 10/7/10 DFA mla

Doc. No. 27;
Page No. 7;
Book No. II;
Series of 2013



COVER SHEET

S.E.C. Registration Number

PETRON CORPORATION AND SUBSIDIARIES

(Company's Full Name)

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

(Business Address : No. Street Company / Town / Province)

Contact Person

Company Telephone Number

12 31
Month *Day*

AAFS
FORM TYPE

Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012, 2011 and 2010

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Branches · Subic · Cebu · Bacolod · Iloilo

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

Opinion

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

MANABAT SANAGUSTIN & CO., CPAs

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

March 25, 2013
Makati City, Metro Manila

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Million Pesos)

		December 31	
	Note	**2012**	2011
ASSETS			
Current Assets			
Cash and cash equivalents	*6, 34, 35*	**P26,965**	P23,823
Financial assets at fair value through profit or loss	*7, 34, 35*	**186**	237
Available-for-sale financial assets	*8, 34, 35*	**51**	-
Trade and other receivables - net	*4, 9, 28, 34, 35*	**57,731**	26,605
Inventories	*4, 10*	**49,582**	37,763
Other current assets	*15*	**10,750**	8,178
		145,265	96,606
Assets held for sale	*5*	**588**	10
Total Current Assets		**145,853**	96,616
Noncurrent Assets			
Available-for-sale financial assets	*8, 34, 35*	**860**	1,036
Property, plant and equipment - net	*4, 12, 37*	**102,140**	50,446
Investments in associates	*4, 11*	**1,641**	2,505
Investment property - net	*4, 13*	**115**	794
Deferred tax assets	*4, 27*	**78**	15
Goodwill	*4, 14*	**10,261**	-
Other noncurrent assets - net	*4, 15, 34, 35*	**18,252**	24,383
Total Noncurrent Assets		**133,347**	79,179
		P279,200	P175,795

	Note	**2012**	2011
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term loans	*16, 34, 35*	**P99,735**	P40,593
Liabilities for crude oil and petroleum product importation	*34, 35*	**24,960**	13,842
Trade and other payables	*17, 28, 34, 35*	**14,867**	7,381
Derivative liabilities	*34, 35*	**245**	55
Income tax payable		**52**	78
Current portion of long-term debt - net	*18, 34, 35*	**73**	4,124
Total Current Liabilities		**139,932**	66,073

Forward

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

(Amounts in Million Pesos, Except Per Share Amounts)

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Million Pesos)

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Million Pesos)

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Million Pesos)

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

Forward

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

See Notes to the Consolidated Financial Statements.

PETRON CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010

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

1. Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance

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

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

Basis of Measurement

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

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

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

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

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

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

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

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

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

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

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

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

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the consolidated statement of comprehensive income to

consolidated statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard. The adoption of the amendments is required for annual periods beginning on or after July 1, 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Assets and Financial Liabilities

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

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

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

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

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

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

Financial Assets

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Debt Issue Costs

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

Derivative Financial Instruments and Hedging

Freestanding Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments Between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Offsetting Financial Instruments

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

Inventories

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

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

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

Business Combination

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest in a Joint Venture

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

Investment Property

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

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

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

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

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

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

Intangible Assets

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

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied

in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

Cylinder Deposits

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

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

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

Provisions

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

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

Capital Stock

Common Shares

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

Preferred Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Lease

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Employee Benefits

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

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

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

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

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

Foreign Operations

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets Held for Sale

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

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

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

Related Parties

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

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

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

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

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

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

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

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Assets Held for Sale

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

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

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

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

6. Cash and Cash Equivalents

This account consists of:

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

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

7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

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

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

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

8. Available-for-Sale Financial Assets

This account consists of:

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

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

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

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

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

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

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

9. Trade and Other Receivables

This account consists of:

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

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

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

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

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

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

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

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

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

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

10. Inventories

This account consists of:

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

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

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

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

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

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

11. Investments in Associates

This account consists of:

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

Investments in associates pertain to investments in the following entities:

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

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

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

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

PAHL commenced operation in the first quarter of 2011.

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

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

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

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

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

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

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

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

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

12. Property, Plant and Equipment

This account consists of:

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

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

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

Capital Commitments

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

13. Investment Property

The movements and balances as of December 31 follow:

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

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

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

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

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

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

14. Acquisition of Subsidiaries

a. *PGL*

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

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

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

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

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

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

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

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

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

Movement of goodwill are as follows:

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

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

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

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

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

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

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

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

d. *LEC*

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

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

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

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

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

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

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

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

e. Mariveles Landco Corporation (MLC)

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

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

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

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

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

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

15. Other Assets

This account consists of:

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

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

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

16. Short-term Loans

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

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

17. Trade and Other Payables

This account consists of:

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

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

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

18. Long-term Debt

This account consists of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Movements in debt issue costs follow:

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

Repayment Schedule

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

2012

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

2011

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

19. Asset Retirement Obligation

Movements in the ARO are as follows:

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

20. Other Noncurrent Liabilities

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

21. Equity

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

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

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

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

b. Capital Stock

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

Preferred Stock

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

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

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

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

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

c. Retained Earnings

   i. Declaration of Cash Dividends

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

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

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

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

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

ii. Appropriation for Capital Projects

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

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

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

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

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

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

22. Cost of Goods Sold

This account consists of:

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

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

23. Selling and Administrative Expenses

This account consists of:

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

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

24. Personnel Expenses

This account consists of:

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

The above amounts are distributed as follows:

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

25. Depreciation and Amortization

This account consists of:

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

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

This account consists of:

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

Forward

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

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

27. Income Taxes

Deferred tax assets and liabilities are from the following:

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

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

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

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

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

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

The components of income tax expense are shown below:

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

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

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

Optional Standard Deduction

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

28. Related Party Disclosures

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

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

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

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

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

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

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

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

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

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

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

29. Operating Lease Commitments

Group as Lessee

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

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

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

Group as Lessor

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

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

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

30. Retirement Plan

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

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

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

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

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

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

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

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

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

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

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

Plan assets consist of the following:

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

Investment in Shares of Stock

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

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

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

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

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

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

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

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

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

Investment in Trust Account

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

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

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

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

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

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

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

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

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

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

31. Significant Agreements

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

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

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

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

NPC

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

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

PSALM

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

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

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

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

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

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

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

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

32. Basic and Diluted Earnings Per Share

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

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

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

33. Supplemental Cash Flow Information

Changes in operating assets and liabilities:

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

34. Financial Risk Management Objectives and Policies

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

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

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

Risk Management Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

Credit Risk Concentration. The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

The credit risk exposure of the Group based on TAR as of December 31, 2012 and 2011 are shown below (Note 9):

	Neither Past Due nor Impaired	**Past Due but not Impaired**	**Impaired**	**Total**
December 31, 2012				
Reseller	**P2,648**	**P141**	**P45**	**P2,834**
Lubes	**378**	**10**	**28**	**416**
Gasul	**766**	**92**	**184**	**1,042**
Industrial	**12,937**	**679**	**682**	**14,298**
Others	**4,657**	**844**	**134**	**5,635**
	P21,386	**P1,766**	**P1,073**	**P24,225**

	Neither Past Due nor Impaired	Past Due but not Impaired	Impaired	Total
December 31, 2011				
Reseller	P210	P40	P35	P285
Lubes	286	6	25	317
Gasul	450	135	180	765
Industrial	10,390	814	671	11,875
Others	4,592	627	173	5,392
	P15,928	P1,622	P1,084	P18,634

Credit Quality. In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

Class A "*High Grade*" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "*Moderate Grade*" refer to accounts of satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

Class C "*Low Grade*" are accounts with high probability of delinquency and default.

Below is the credit quality profile of the Group's TAR as of December 31, 2012 and 2011:

	Trade Accounts Receivables per Class			
	Class A	**Class B**	**Class C**	**Total**
December 31, 2012				
Reseller	**P2,171**	**P387**	**P276**	**P2,834**
Lubes	**151**	**206**	**59**	**416**
Gasul	**243**	**302**	**497**	**1,042**
Industrial	**3,427**	**8,375**	**2,496**	**14,298**
Others	**3,239**	**2,097**	**299**	**5,635**
	P9,231	**P11,367**	**P3,627**	**P24,225**
December 31, 2011				
Reseller	P124	P135	P26	P285
Lubes	157	112	48	317
Gasul	348	240	177	765
Industrial	3,424	6,841	1,610	11,875
Others	4,537	762	93	5,392
	P8,590	P8,090	P1,954	P18,634

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps or surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as of December 31, 2012 and 2011.

2012	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**P26,965**	**P26,965**	**P26,965**	**P -**	**P -**	**P -**
Trade and other receivables	**57,731**	**57,731**	**57,731**	**-**	**-**	**-**
Due from related parties	**10,788**	**10,788**	**-**	**10,788**	**-**	**-**
Derivative assets	**39**	**39**	**39**	**-**	**-**	**-**
Financial assets at FVPL	**147**	**147**	**147**	**-**	**-**	**-**
AFS financial assets	**911**	**1,026**	**139**	**488**	**399**	**-**
Long-term receivables	**72**	**84**	**8**	**34**	**16**	**26**

Forward

2012	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Liabilities						
Short-term loans	**P99,735**	**P100,174**	**P100,174**	**P -**	**P -**	**P -**
Liabilities for crude oil and petroleum product importation	**24,960**	**24,960**	**24,960**	-	-	-
Accounts payable and accrued expenses (excluding taxes payable)	**14,109**	**14,109**	**14,109**	-	-	-
Derivative liabilities	**245**	**245**	**245**	-	-	-
Long-term debts (including current maturities)	**56,013**	**71,822**	**3,560**	**11,208**	**52,856**	**4,198**
Cash bonds	**360**	**365**	**342**	**11**	**6**	**6**
Cylinder deposits	**213**	**213**	-	-	-	**213**
Other noncurrent liabilities	**1,862**	**1,862**	-	**1,815**	**24**	**23**

2011	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P23,823	P23,823	P23,823	P -	P -	P -
Trade and other receivables	26,605	26,610	26,610	-	-	-
Due from related parties	23,787	24,337	1,610	22,346	381	-
Derivative assets	43	43	43	-	-	-
Financial assets at FVPL	194	194	194	-	-	-
AFS financial assets	1,036	1,107	93	117	897	-
Long-term receivables	88	99	7	25	39	28
Financial Liabilities						
Short-term loans	40,593	40,877	40,877	-	-	-
Liabilities for crude oil and petroleum product importation	13,842	13,842	13,842	-	-	-
Accounts payable and accrued expenses (excluding taxes payable)	6,600	6,600	6,600	-	-	-
Derivative liabilities	55	55	55	-	-	-
Long-term debts (including current maturities)	49,868	67,242	7,621	9,308	24,076	26,237
Cash bonds	303	312	257	11	15	29
Cylinder deposits	383	383	-	-	-	383
Other noncurrent liabilities	54	54	-	1	32	21

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in market prices. The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For consumer (buy) hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost. While for producer (sell) hedges, if prices go down, hedge positions may show marked-to-market gains; however, any gain in the marked-to-market position is offset by the resulting lower selling price.

To minimize the Group's risk of potential losses due to volatility of international crude and product prices, the Group implemented commodity hedging for crude and petroleum products. The hedges are intended to protect crude inventories from downward price risk and margins of Mean of Platts of Singapore (MOPS)-based sales. Hedging policy (including the use of commodity price swaps, buying of put options, collars and 3-way options) developed by the Commodity Risk Management Committee is in place. Decisions are guided by the conditions set and approved by the Group's management.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group's capital management policies and programs aim to provide an optimal capital structure that would ensure the Group's ability to continue as a going concern while at the same time provide adequate returns to the shareholders. As such, it considers the best trade-off between risks associated with debt financing and relatively higher cost of equity funds. Likewise, compliance with the debt to equity ratio covenant of bank loans has to be ensured.

An enterprise resource planning system is used to monitor and forecast the Group's overall financial position. The Group regularly updates its near-term and long-term financial projections to consider the latest available market data in order to preserve the desired capital structure. The Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease assets and/or liabilities, depending on the prevailing internal and external business conditions.

The Group monitors capital via carrying amount of equity as stated in the consolidated statements of financial position. The Group's capital for the covered reporting period is summarized in the table below:

	2012	2011
Total assets	**P279,200**	P175,795
Total liabilities	**203,062**	116,108
Total equity	**76,138**	59,687
Debt to equity ratio	**2.7:1**	1.9:1

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

35. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as of December 31:

		2012		2011	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets (FA):					
Cash and cash equivalents	*6*	**P26,965**	**P26,965**	P23,823	P23,823
Trade and other receivables	*9*	**57,731**	**57,731**	26,605	26,605
Due from related parties	*15*	**10,788**	**10,788**	23,787	23,787
Long-term receivables	*15*	**72**	**72**	88	88
Loans and receivables		**95,556**	**95,556**	74,303	74,303
AFS financial assets	*8*	**911**	**911**	1,036	1,036
Financial assets at FVPL	*7*	**147**	**147**	194	194
Derivative assets	*7*	**39**	**39**	43	43
FA at FVPL		**186**	**186**	237	237
Total financial assets		**P96,653**	**P96,653**	P75,576	P75,576

		2012		2011	
	Note	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial liabilities (FL):					
Short-term loans	*16*	**P99,735**	**P99,735**	P40,593	P40,593
Liabilities for crude oil and petroleum product importation		**24,960**	**24,960**	13,842	13,842
Trade and other payables (excluding specific taxes and other taxes payable)	*17*	**14,109**	**14,109**	6,600	6,600
Long-term debt including current portion	*18*	**56,013**	**56,013**	49,868	49,868
Cash bonds	*20*	**360**	**360**	303	303
Cylinder deposits	*20*	**213**	**213**	383	383
Other noncurrent liabilities	*20*	**1,862**	**1,862**	54	54
FL at amortized cost		**197,252**	**197,252**	111,643	111,643
Derivative liabilities		**245**	**245**	55	55
Total financial liabilities		**P197,497**	**P197,497**	P111,698	P111,698

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

Cash and Cash Equivalents, Trade and Other Receivables, Due from Related Parties and Long-term Receivables. The carrying amount of cash and cash equivalents and receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of long-term receivables, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of freestanding and bifurcated forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Marked-to-market valuation of commodity hedges were based on the forecasted crude and product prices by Mitsui & Co. Commodity Risk Management Ltd. (MCRM), an independent trading group.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Long-term Debt - Floating Rate. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Cash Bonds, Cylinder Deposits and Other Noncurrent Liabilities. Fair value is estimated as the present value of all future cash flows discounted using the applicable market rates for similar types of instruments as of reporting date. Effective rates used in 2012 and 2011 are 6.14% and 6.16%, respectively.

Short-term Loans, Liabilities for Crude Oil and Petroleum Product Importation and Trade and Other Payables. The carrying amount of short-term loans, liabilities for crude oil and petroleum product importation and trade and other payables approximates fair value primarily due to the relatively short-term maturities of these financial instruments.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are recognized directly in profit or loss.

Freestanding Derivatives

Freestanding derivatives consist of commodity and currency entered into by the Group.

Currency Forwards

As of December 31, 2012 and 2011, the Group has outstanding foreign currency forward contracts with aggregate notional amount of US$963 and US$220, respectively, and with various maturities in 2013 and 2012. As of December 31, 2012 and 2011, the net fair value of these currency forwards amounted to (P217) and P40, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2013. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price.

Total outstanding equivalent notional quantity covered by the commodity swaps were 0.5 million barrels and 1.8 million barrels for 2012 and 2011, respectively. The estimated net receipts for these transactions amounted to P30 and P147 for 2012 and 2011, respectively.

Commodity Options
As of December 31, 2012, the Group has outstanding 3-way options designated as hedge of forecasted purchases of crude oil with a notional quantity of 0.2 million barrels.

The call and put options can be exercised at various calculation dates in 2013 with specified quantities on each calculation date. The estimated amount net receipts of these call and put options as of December 31, 2012 amounted to P15.

Outstanding hedge in 2011 with notional quantities of 1.3 million barrels has an actual net receipt of P47.

Embedded Derivatives
Embedded foreign currency derivatives exist in certain US dollar-denominated sales and purchases contracts for various fuel products of Petron. Under the sales contracts, Petron agrees to fix the peso equivalent of the invoice amount based on the average Philippine Dealing System (PDS) rate on the month of delivery. In the purchase contracts, the peso equivalent is determined using the average PDS rate on the month preceding the month of delivery.

As of December 31, 2012 and 2011, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$83 and US$91, respectively. These non-financial contracts consist mainly of foreign currency-denominated service contracts, purchase orders and sales agreements. The embedded forwards are not clearly and closely related to their respective host contracts. As of December 31, 2012 and 2011, the net positive (negative) fair value of these embedded currency forwards amounted to P11 and (P52), respectively.

For the years ended December 31, 2012, 2011 and 2010, the Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P845), P205, and (P98), respectively.

Fair Value Changes on Derivatives
The net movements in fair value of all derivative transactions in 2012 and 2011 are as follows:

	Note	**2012**	2011
Fair value at beginning of year		**(P12)**	P4
Net changes in fair value during the year	*26*	**(845)**	205
Fair value of settled instruments		**651**	(221)
Balance at end of year		**(P206)**	(P12)

Fair Value Hierarchy
Financial assets and liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method as of December 31, 2012 and 2011. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

2012	**Level 1**	**Level 2**	**Total**
Financial Assets			
FVPL	**P147**	**P -**	**P147**
Derivative assets	-	**39**	**39**
AFS financial assets	-	**911**	**911**
Financial Liabilities			
Derivative liabilities	-	**(245)**	**(245)**

2011	Level 1	Level 2	Total
Financial Assets			
FVPL	P194	P -	P194
Derivative assets	-	43	43
AFS financial assets	-	1,036	1,036
Financial Liabilities			
Derivative liabilities	-	(55)	(55)

The Group has no financial instruments valued based on Level 3 as of December 31, 2012 and 2011. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

36. Registration with the Board of Investments (BOI)

Mixed Xylene, Benzene, Toluene (BTX) and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 226) as: (1) a non-pioneer, new export producer status of Mixed Xylene; (2) a pioneer, new export producer status of Benzene and Toluene; and (3) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 70% of the production of the mentioned petrochemical products (except Toluene which, effective 2012, requires only 50%) every year except for the produced Propylene.

As a registered enterprise, Petron is entitled to the following benefits on its production of petroleum products used as petrochemical feedstock:

a. ITH: (1) for four years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Mixed Xylene subject to base figure of 120,460 metric tons per year representing Petron's highest attained production volume for the last three years; (2) for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene; and (3) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

b. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming parts thereof for ten years from start of commercial operations.

c. Simplification of custom procedures.

d. Access to Customs Bonded Manufacturing Warehouse (CBMW) subject to Custom rules and regulations provided firm exports at least 70% of production output of Mixed Xylene and Benzene and 50% of Toluene.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.

f. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

g. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% production of Mixed Xylene and Benzene and 50% of Toluene.

h. Petron may qualify to import capital equipment, spare parts, and accessories at zero (one percent for Propylene) duty from date of registration up to June 5, 2006 pursuant to Executive Order (EO) No. 313 and its Implementing Rules and Regulations.

   Mixed Xylene entitlement period ended in April 2012 and registration with BOI was cancelled on August 10, 2012.

Fluidized Bed Catalytic Cracker (PetroFCC) Unit
On December 20, 2005, the BOI approved Petron's application under RA 8479 for new investment at its Bataan Refinery for the PetroFCC. Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from December 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration subject to a rate of exemption computed based on the % share of product that are subject to retooling.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment. This shall be equivalent to the difference between the tariff rate and the three percent (3%) duty imposed on the imported counterpart.

d. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

e. Exemption from wharfage dues, any export tax, duty, imposts and fees for a ten year period from date of registration.

f. Exemption from taxes and duties on imported spare parts for consigned equipment with bonded manufacturing warehouse.

g. Exemption from real property tax on production equipment or machinery.

h. Exemption from contractor's tax.

70 MW Coal-Fired Power Plant (Limay, Bataan)
On November 3, 2010, Petron registered with the BOI as new operator of a 70 MW Coal-Fired Power Plant on a pioneer status with non-pioneer incentives under the Omnibus Investments Code of 1987 (EO No. 226). Subject to Petron's compliance with the terms and conditions of registration, the BOI is extending the following major incentives:

a. ITH for four years from July 2012 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration limited to the revenue generated from the electricity sold to the grid.

b. Importation of consigned equipment for a period of ten years from the date of registration subject to the posting of re-export bond.

c. Petron may qualify to import capital equipment, spare parts and accessories at zero percent duty from date of registration up to June 16, 2011 pursuant to EO No. 528 and its Implementing Rules and Regulations.

RMP-2 Project
On June 3, 2011, the BOI approved Petron's application under RA 8479 as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

a. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based in the formula of the ITH rate of exemption.

b. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

c. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

d. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

37. Segment Information

Management identifies segments based on business and geographic locations. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. The CEO (the chief operating decision maker) reviews management reports on a regular basis.

The Group's major sources of revenues are as follows:

a. Sales of petroleum and other related products which include gasoline, diesel and kerosene offered to motorists and public transport operators through its service station network around the country.

b. Insurance premiums from the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all others forms and lines of insurance authorized by law, except life insurance.

c. Lease of acquired real estate properties for petroleum, refining, storage and distribution facilities, gasoline service stations and other related structures.

d. Sales on wholesale or retail and operation of service stations, retail outlets, restaurants, convenience stores and the like.

e. Export sales of various petroleum and non-fuel products to other Asian countries such as South Korea, China, Taiwan, Singapore, Cambodia, Japan, India and Malaysia.

Segment Assets and Liabilities

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

Inter-segment Transactions

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

Major Customer

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

The following tables present revenue and income information and certain asset and liability information regarding the business segments for the years ended December 31, 2012, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination	Total
2012						
Revenue:						
External sales	**P424,052**	**P -**	**P -**	**P743**	**P -**	**P424,795**
Inter-segment sales	**180,602**	**117**	**383**	**1,853**	**(182,955)**	**-**
Segment results	**8,807**	**90**	**171**	**77**	**248**	**9,393**
Net income	**2,316**	**159**	**37**	**93**	**(328)**	**2,277**
Assets and liabilities:						
Segment assets	**314,246**	**1,737**	**4,764**	**1,089**	**(42,714)**	**279,122**
Segment liabilities	**224,771**	**328**	**3,759**	**312**	**(29,153)**	**200,017**
Other segment information:						
Property, plant and equipment	**96,933**	**-**	**-**	**266**	**4,941**	**102,140**
Depreciation and amortization	**5,067**	**-**	**2**	**37**	**7**	**5,113**
2011						
Revenue:						
External sales	P273,270	P -	P -	P686	P -	P273,956
Inter-segment sales	201,319	102	357	983	(202,761)	-
Segment results	13,592	52	152	74	964	14,834
Net income	7,956	165	27	91	246	8,485
Assets and liabilities:						
Segment assets	183,449	1,834	3,954	918	(14,375)	175,780
Segment liabilities	124,123	146	3,018	224	(13,222)	114,289
Other segment information:						
Property, plant and equipment	46,465	-	-	205	3,776	50,446
Depreciation and amortization	3,615	-	-	42	-	3,657
2010						
Revenue:						
External sales	227,860	-	-	1,234	-	229,094
Inter-segment sales	8,271	139	327	2,789	(11,526)	-
Segment results	11,975	112	252	124	48	12,511
Net income	8,367	169	50	161	(823)	7,924
Assets and liabilities:						
Segment assets	163,823	2,086	2,935	1,097	(8,153)	161,788
Segment liabilities	108,665	559	2,027	303	(5,040)	106,514
Other segment information:						
Property, plant and equipment	31,753	-	1	379	2,824	34,957
Depreciation and amortization	3,476	-	-	65	(1)	3,540

Inter-segment sales transactions amounted to P182,955, P202,629 and P11,525 for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table presents additional information on the petroleum business segment of the Group for the years ended December 31, 2012, 2011 and 2010:

	Reseller	Lube	Gasul	Industrial	Others	Total
2012						
Revenue	**P180,897**	**P2,996**	**P24,899**	**P132,049**	**P83,211**	**P424,052**
Property, plant and equipment	**15,934**	**233**	**446**	**129**	**80,191**	**96,933**
Capital expenditures	**1,250**	**1**	**65**	**32**	**56,243**	**57,591**
2011						
Revenue	P108,765	P2,531	P19,500	P105,741	P36,733	P273,270
Property, plant and equipment	5,189	279	205	78	44,695	50,446
Capital expenditures	303	-	11	-	17,854	18,168
2010						
Revenue	92,584	2,123	15,054	90,311	27,788	227,860
Property, plant and equipment	4,524	345	181	43	26,660	31,753
Capital expenditures	169	1	8	2	2,615	2,795

Geographical Segments

The following table presents segment assets of the Group for the year 2012 and 2011.

	2012	2011
Local	**P187,183**	P163,693
International	**91,939**	12,087
	P279,122	P175,780

The following table presents revenue information regarding the geographical segments of the Group for the years ended December 31, 2012, 2011 and 2010.

	Petroleum	Insurance	Leasing	Marketing	Elimination/ Others	Total
2012						
Revenue						
Local	**P264,728**	**P55**	**P383**	**P2,596**	**(P2,292)**	**P265,470**
Export/international	**339,926**	**62**	**-**	**-**	**(180,663)**	**159,325**
2011						
Revenue						
Local	246,009	71	357	1,669	(1,411)	246,695
Export/international	228,580	31	-	-	(201,350)	27,261
2010						
Revenue						
Local	206,070	76	327	4,023	(3,192)	207,304
Export/international	30,061	63	-	-	(8,334)	21,790

38. Events After the Reporting Date

On February 6, 2013, the Company issued US$500 million Undated Subordinated Capital Securities (USCS) at the issue price of 100%. In March 2013, Petron reopened the issuance of the securities under the same terms and conditions of the earlier USCS. The additional US$250 million, issued at the price of 104.25%, was settled on March 11, 2013. At the option of the issuer, the securities may be redeemed after five and a half years or on any distribution payment date thereafter. The proceeds will be applied by the Company towards capital and other expenditures in respect of RMP-2 and used for general corporate purposes.

On March 18, 2013 the BOD approved cash dividend of P2.382 per share for preferred shareholders for the second and third quarter of 2013 with the following record and payment dates:

Period	Record Date	Payment Date
Second Quarter	May 10, 2013	June 5, 2013
Third Quarter	August 8, 2013	September 5, 2013

On the same date, the BOD approved cash dividend of P0.05 per share for common shareholders as of April 12, 2013 to be paid on May 8, 2013.

39. Other Matters

a. Petron has unused letters of credit totaling approximately P31,417, P25,452 and P9,236 as of December 31, 2012, 2011 and 2010, respectively.

b. Tax Credit Certificates Related Cases

   In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to Petron's use of P659 of Tax Credit Certificate ("TCCs") pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection of the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012.

   In 2002, the BIR issued a P254 assessment against Petron for deficiency excise taxes for the years 1995 to 1998 resulting from the cancellation by the Department of Finance (DOF) of tax debit memos, the related TCCs and their assignment to Petron. Petron contested the assessment before the CTA. On May 4, 2007, the CTA (2nd division) denied Petron's petition, ordering Petron to pay the BIR P601 representing the Petron's P254 unpaid deficiency excise taxes for the taxable years 1995 to 1998 and 25% late payment surcharge and 20% delinquency interest per annum computed from June 27, 2002. Petron appealed the decision to the CTA En Banc, which ruled in favor of the Petron, reversing the unfavorable decision of the CTA (2nd Division). The BIR contested the CTA En Banc decision before the

Supreme Court. On March 21, 2012, the Supreme Court promulgated a decision in favor of Petron and against the BIR affirming the decision of the CTA En Banc finding that the BIR had no legal basis to assess the excise taxes or any penalty surcharge or interest thereon as Petron was an innocent transferee for value of the subject TCCs which had therefore properly filed its tax returns, and paid the appropriate taxes using such TCCs, for the years 1995 to 1998 (March 21 Decision). A motion was subsequently filed by the office of the solicitor general seeking for the reconsideration of the above decision. On July 11, 2012, the Supreme Court (2nd Division) issued a resolution upholding its decision and denying the office of the Solicitor General's motion for reconsideration with finality. The March 21 Decision in favor of Petron became final and executor on September 5, 2012.

c. Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 (Ordinance 8027) reclassifying the areas occupied by the oil terminals of the Parent Company, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. However, in June 2002, the Parent Company, together with Shell and Chevron, entered into an Memorandum of Understanding (MOU) with the City of Manila and the Department of Energy (DOE), agreeing to scale down operations, recognizing that this was a sensible and practical solution to reduce the economic impact of Ordinance 8027. In December 2002, in reaction to the MOU, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance 8027. In April 2003, the Parent Company filed a petition with the Regional Trial Court (RTC) to annul Ordinance 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance 8027.

The City of Manila subsequently issued the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance 8119), which applied to the entire City of Manila. Ordinance 8119 allowed the Parent Company (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance 8119, which was thought to effectively repeal Ordinance 8027, in April 2007, the RTC dismissed the petition filed by the Parent Company questioning Ordinance 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (March 7 Decision) directing the Mayor of Manila to immediately enforce Ordinance 8027. On March 12, 2007, the Parent Company, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, the Parent Company also filed a petition before the RTC of Manila praying for the nullification of Ordinance 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, the Parent Company, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance 8027.

In May 2009, Manila City Mayor Alfredo Lim approved Ordinance No. 8187 (Ordinance 8187), which amended Ordinance 8027 and Ordinance 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012, the RTC of Manila ruled that Section 23 of Ordinance 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance 8119. On September 25, 2012, the Parent Company sought clarification and partial consideration of the August 24 decision and prayed for the nullification of the entire Ordinance 8119. In an order dated December 18, 2012, the RTC of Manila denied the motion filed by the Parent Company. The Parent Company filed a notice of appeal on January 23, 2013. In an order dated February 6, 2013, the RTC of Manila ordered that the records of the case be forwarded to the Court of Appeals.

With regard to Ordinance 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment of its implementation. The Parent Company filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within 5 years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of the Parent Company and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented the Parent Company from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), the Parent Company reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

d. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by the Parent Company to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found the Parent Company not criminally liable, but the SBMI found the Parent Company to have overloaded the vessel. The Parent Company has appealed the findings of the SBMI to the Philippine Department of Transportation and Communication (DOTC) and is awaiting its resolution. The Parent Company believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as the Parent Company, which are charterers.

In 2009, complaints for violation of the Philippine Clean Water Act of 2004 (Republic Act No. 9275, the Clean Water Act) and homicide and less serious physical injuries were filed against the Parent Company. Complainants claim that their exposure to and close contact with waters along the shoreline and mangroves affected by the oil spill has caused them major health problems. On February 13, 2012, an Information was filed against the owner and the Captain of MT Solar 1 and Messrs. Khalid Al-Faddagh and Nicasio Alcantara, former President and Chairman of the Parent Company, respectively, for violation of the Clean Water Act. On March 28, 2012, the court dismissed the information for lack of probable

cause and for lack of jurisdiction over the offense charged. The Provincial Prosecutor and the private prosecutor filed a motion for reconsideration of this March 28 Order of the court. On August 13, 2012, the court issued an order denying the said motion for reconsideration.

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

e. Other Proceedings

The Company is also party to certain other proceedings arising out of the ordinary course of its business, including legal proceedings with respect to tax, regulatory and other matters. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these other proceedings will not have a material adverse effect on the Company's business, financial condition or results of operations.

f. Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations for any period.

Annex "B"

Index to Financial Statements & Supplementary Schedules

Manabat Sanagustin & Co., CPAs
The KPMG Center, 9/F
6787 Ayala Avenue
Makati City 1226, Metro Manila, Philippines

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail manila@kpmg.com.ph

Branches: Bacolod · Cebu · Iloilo · Subic

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATON

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying financial statements of Petron Corporation (the " Company") and Subsidiaries, as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A , and have issued our report thereon dated March 25, 2013.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Company's management.

- Reconciliation of Retained Earnings Available for Dividends Declaration
- Map of Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

MANABAT SANAGUSTIN & CO., CPAs

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

March 25, 2013
Makati City, Metro Manila

Manabat Sanagustin & Co., CPAs, a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, Group A, valid until December 31, 2013
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Group A, valid until December 17, 2014

PETRON CORPORATION AND SUBSIDIARIES

INDEX TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2012

Statement of Management's Responsibility for the Consolidated Financial Statements

Independent Auditor's Report on the SEC Supplementary Schedules Filed Separately from the Basic Consolidated Financial Statements

Supplementary Schedules to Consolidated Financial Statements

Supplementary Schedules of Annex 68 - E		Page No.
A.	Financial Assets	NA*
B.	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders	NA**
C.	Amounts Receivable and Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements	1 – 2
D.	Intangible Assets - Other Assets	3
E.	Long-term Debt	4
F.	Indebtedness to Related Parties	NA***
G.	Guarantees of Securities of Other Issuers	NA
H.	Capital Stock	5
Map of the Conglomerate within which the Group belongs		6
Tabular Schedule of Philippine Financial Reporting Standards		7

* *Balance of Available for Sale Securities and Fair Value Through Profit or Loss is less than 5% of total current assets.*

***Balance of account is less than 1% of the total assets of the Company and no individually significant advances over P100,000.*

****Balance of account is less than 5% of total assets of the Company*

Supplementary Schedule to Parent Financial Statements

Reconciliation of Parent Company's Retained Earnings Available for Dividend Declaration	8

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS	AMOUNTS COLLECTED	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
PETRON	P -	P 6,186	P (2,777)	P -	P 3,409	P 3,409	P -	P 3,409
PMC	82	101	(149)	-	34	34	-	34
PFC	62	3	(62)	-	3	3	-	3
PSTPL	10,465	339,365	(324,403)	-	25,427	25,427	-	25,427
PETROGEN	14	415	(419)	-	10	10	-	10
OVINCOR	-	83	(71)	-	12	12	-	12
NVRC	2,284	-	(2,284)	-	0	0	-	0
TOTAL	**P 12,907**	**P 346,153**	**P (330,165)**	**P -**	**P 28,895**	**P 28,895**	**P -**	**P 28,895**

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	NET ADDITIONS/ CTA/RECLASS/ OTHERS	NET AMTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
PETRON	P 10,496	P 340,043	P (325,066)	P -	P 25,473	P 25,473	P -	P 25,473
PMC	55	1,391	(1,292)	-	154	154	-	154
PFC	58	619	(621)	-	56	56	-	56
PSTPL	-	71	(69)	-	2	2	-	2
PETROGEN	14	86	(87)	-	13	13	-	13
PM	-	249	(15)	-	234	234	-	234
NVRC	2,284	1,446	(767)	-	2,963	2,963	-	2,963
TOTAL	**P 12,907**	**P 343,905**	**P (327,917)**	**P -**	**P 28,895**	**P 28,895**	**P -**	**P 28,895**

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2012
(Amounts in Millions)

Description		Beginning balance		Additions at cost		Charged to cost and expenses		Charged to other accounts		Other changes additions (deductions)		Ending balance
Franchise Fee:												
Cost	P	18	P	0	P	-	P	-	P	(1)	P	17
Less amortization for the year		9		-		1		-		(0)		10
	P	**9**	**P**	**0**	**P**	**(1)**	**P**	**-**	**P**	**(1)**	**P**	**7**
Software:												
Cost	P	-	P	457	P	-	P	-	P	171	P	628
Less amortization for the year		-		-		56		-		168		224
	P	**-**	**P**	**457**	**P**	**(56)**	**P**	**-**	**P**	**3**	**P**	**404**

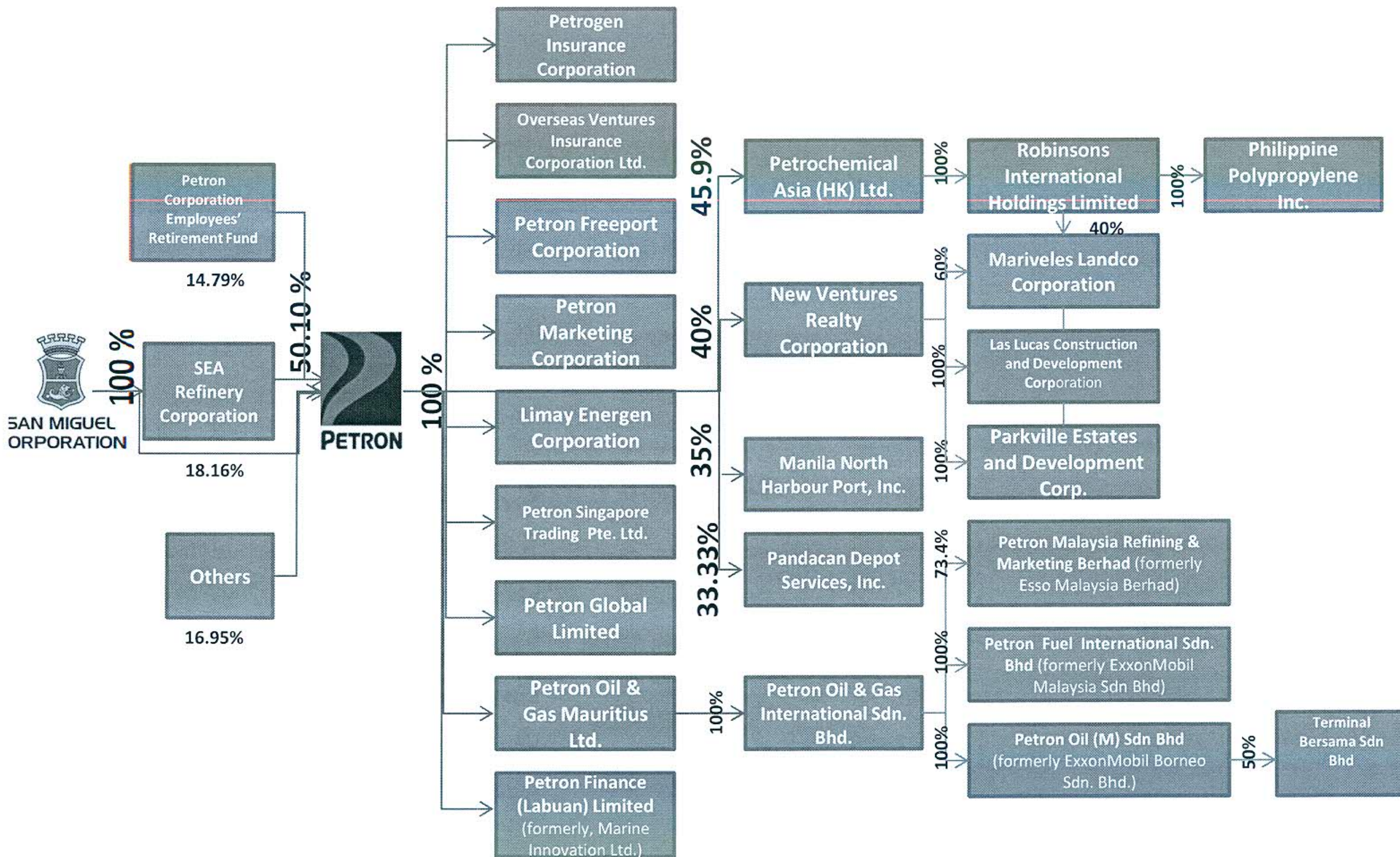
PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2012
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER		Outstanding Balance		Amount Shown as Current		Current and Long-term	INTEREST RATES	Number of Periodic Installments	Final Maturity
Unsecured term notes:										
Peso denominated:										
Fixed	Rizal Commercial Banking Corporation	P	3,564	P	33	P	3,530	6.3212% and 7.1827%	Amortized	October 2018 and 2021
Fixed	BPI Asset Management and Trust Group		5,200		-		5,182	8.14%	Bullet	June 2014
Fixed	BPI Asset Management and Trust Group		4,656		40		4,628	9.33%	Amortized	June 2016
Fixed	Deutsche Bank AG, Hongkong Branch		20,000		-		19,830	7.00%	Bullet	November 2017
			33,420		73		33,170			
Foreign currency - denominated										
Floating	Standard Chartered Bank (Hong Kong) Limited		12,315		-		11,922	LIBOR plus agreed margin	Every six months	November 2016
Floating	Standard Chartered Bank (Hong Kong) Limited		11,288		-		10,921	LIBOR plus agreed margin	Every six months	November 2017
			23,603		-		22,843			
Total Long-term Debt		P	**57,023**	P	**73**	P	**56,013**			

PETRON CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2012

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors and executive officers	Others
Preferred stock	624,895,503	100,000,000	Not applicable	-	425,500	99,574,500
Common stock	9,375,104,497	9,375,104,497	Not applicable	7,785,912,221	34,585	1,589,157,691

PETRON & SUBSIDIARIES GROUP STRUCTURE



** Structure as of December 31, 2012 indicating ownership of Petron Corporation ("Petron") and Petron's voting interests in its subsidiaries.*

PETRON CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✔		
PFRSs Practice Statement Management Commentary			✔	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✔		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✔
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✔
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✔
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✔
	Amendments to PFRS 1: Government Loans			✔
PFRS 2	Share-based Payment			✔
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✔
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✔
PFRS 3 (Revised)	Business Combinations	✔		
PFRS 4	Insurance Contracts	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✔		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✔
PFRS 7	Financial Instruments: Disclosures	✔		
	Amendments to PFRS 7: Transition	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✔		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✔		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✔		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities		✔	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✔	
PFRS 8	Operating Segments	✔		
PFRS 9	Financial Instruments		✔	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✔	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements		✔	
PFRS 12	Disclosure of Interests in Other Entities		✔	
PFRS 13	Fair Value Measurement		✔	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✔		
	Amendment to PAS 1: Capital Disclosures	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		✔	
PAS 2	Inventories	✔		
PAS 7	Statement of Cash Flows	✔		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔		
PAS 10	Events after the Balance Sheet Date	✔		
PAS 11	Construction Contracts			✔
PAS 12	Income Taxes	✔		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✔		
PAS 16	Property, Plant and Equipment	✔		
PAS 17	Leases	✔		
PAS 18	Revenue	✔		
PAS 19	Employee Benefits	✔		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✔		
PAS 19 (Amended)	Employee Benefits		✔	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✔
PAS 21	The Effects of Changes in Foreign Exchange Rates	✔		
	Amendment: Net Investment in a Foreign Operation	✔		
PAS 23 (Revised)	Borrowing Costs	✔		
PAS 24 (Revised)	Related Party Disclosures	✔		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✔		
PAS 27 (Amended)	Separate Financial Statements	✔		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✔		
PAS 29	Financial Reporting in Hyperinflationary Economies			✔
PAS 31	Interests in Joint Ventures	✔		
PAS 32	Financial Instruments: Disclosure and Presentation	✔		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✔		
	Amendment to PAS 32: Classification of Rights Issues	✔		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✔	
PAS 33	Earnings per Share	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 34	Interim Financial Reporting	✔		
PAS 36	Impairment of Assets	✔		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔		
PAS 38	Intangible Assets	✔		
PAS 39	Financial Instruments: Recognition and Measurement	✔		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✔		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✔
	Amendments to PAS 39: The Fair Value Option	✔		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✔		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✔		
	Amendment to PAS 39: Eligible Hedged Items	✔		
PAS 40	Investment Property	✔		
PAS 41	Agriculture			✔
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✔		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✔
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✔
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✔
IFRIC 8	*Scope of PFRS 2*			✔
IFRIC 9	Reassessment of Embedded Derivatives	✔		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✔		
IFRIC 10	*Interim Financial Reporting and Impairment*	✔		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✔
IFRIC 12	Service Concession Arrangements			✔
IFRIC 13	Customer Loyalty Programmes	✔		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✔		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✔		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✔
IFRIC 17	Distributions of Non-cash Assets to Owners	✔		
IFRIC 18	Transfers of Assets from Customers	✔		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✔		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✔
SIC-7	Introduction of the Euro			✔
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✔
SIC-12	Consolidation - Special Purpose Entities	✔		
	Amendment to SIC - 12: Scope of SIC 12	✔		
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✔
SIC-15	Operating Leases - Incentives	✔		
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	✔		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✔		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✔		
SIC-29	Service Concession Arrangements: Disclosures.			✔
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✔
SIC-32	Intangible Assets - Web Site Costs			✔

PETRON CORPORATION
SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2012
(Amounts in Thousand Pesos)

		(Figures based on functional currency audited financial statements)
Unappropriated Retained Earnings, beginning		**P12,545,314**
Adjustments: *(see adjustments in previous year's Reconciliation)*		**(3,375,224)**
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		**9,170,090**
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	P1,622,641	
Less: Non-actual/unrealized income net of tax		
Equity in net income of jointly controlled entity	-	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-	
Unrealized actuarial gain	-	
Fair value adjustments (M2M gains)	-	
Fair value adjustments of Investment Property resulting to gain	-	
Retirement benefits income	441, 205	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Sub-total	1,181,436	
Add: Non-actual losses		
Fair value adjustment of FVPL financial assets	15,273	
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP – loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the period	1,196,709	**1,196,709**
Unappropriated Retained Earnings, as adjusted, ending		**10,366,799**
Add (Less):		
Dividend declaration during the period	(1,890,312)	
Appropriations of retained earnings during the year	-	
Reversal of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	-	
	(1,890,312)	**(1,890,312)**
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**P8,476,487**

Annex “C-1”

Public Ownership Report as of December 31, 2012

PETRON CORPORATION
Computation of Public Ownership as of (12/31/12)

	% to total Outstanding Shares	Number of Shares	Common
Number of Issued Shares			9,475,104,497
Less: Number of Treasury Shares (if any)			-
Number of Preferred Shares (if any)			100,000,000
Number of Outstanding Shares			9,375,104,497
Less:			
Directors *			
Ramon S. Ang	0.0000%	1,000	
Direct			
Eduardo M. Cojuangco. Jr.	0.0000%	1,000	
Direct			
Estelito P. Mendoza	0.0000%	1,000	
Direct			
Bernardino R. Abes	0.0000%	1	
Direct			
Aurora T. Calderon	0.0000%	1,000	
Direct			
Roberto V. Ongpin	0.0000%	1	
Direct			
Eric O. Recto	0.0000%	1	
Direct			
Ron W. Haddock	0.0000%	1	
Direct			
Mirzan Mahathir	0.0000%	1,000	
Direct			
Reynaldo G. David	0.0000%	1,000	
Direct			
Romela M. Bengzon	0.0000%	1,000	
Direct			
Virgilio S. Jacinto	0.0000%	1,000	
Direct			
Ferdinand K. Constantino	0.0000%	0	
Direct			

Artemio V. Panganiban Direct	0.0000%	1,000		
Nelly Favis-Villafuerte Direct	0.0000%	1,000	10,004	
Officers*				
Lubin B. Nepomuceno Direct	0.0001%	5,000		
Emmanuel E. Erana Direct	0.0000%	0		
Rowena O. Cortez Direct	0.0001%	8,580		
Archie B. Gupalor Direct	0.0000%	3,000		
Susan Y. Yu Direct	0.0000%	0		
Freddie P. Yumang Direct	0.0000%	0		
Albertito S. Sarte Direct	0.0000%	0		
Efren P. Gabrillo Direct	0.0001%	8,001		
Joel Angelo C. Cruz Direct	0.0000%	0	24,581	

Principal Stockholders *				
SEA Refinery Corporation Direct	50.10%	4,696,885,564		
Petron Corporation Employees' Retirement Fund (PCERP) Direct	14.79%	1,386,156,097		
San Miguel Corporation Direct	18.16%	1,702,870,560	7,785,912,221	
Affiliate *				
N/A	-	-		
Others				
Government*	-	-		
Banks*	-	-		
Employees*	-	-		
Lock-up Shares*	0.20%	18,531,655	18,531,655	7,804,478,461
Total Number of Shares Owned by the Public				**1,570,626,036**

PUBLIC OWNERSHIP PERCENTAGE

$$\frac{\textbf{Total Number of Shares Owned by the Public}}{\textbf{Total Issued and Outstanding Shares}}$$

$$\frac{1{,}570{,}626{,}036 \text{ shares}}{9{,}375{,}104{,}497 \text{ shares}} \quad \mathbf{16.75\%}$$

Required Public Ownership % = **10%**

/	
Complied	Not Complied

(Please check (/) the appropriate box)

Number of Issued and Outstanding Shares	=	9,475,104,497
Number of Outstanding Shares	=	9,475,104,497
Number of Treasury Shares	=	-
Number of Listed Shares	=	9,475,104,497
Number of Foreign-Owned Shares	=	241,939,906
Foreign Ownership Level (%)	=	2.55%
Foreign Ownership Limit (%)	=	No Foreign Ownership Limit
Number of Stockholders	=	157,465
Number of Shareholders owning at least one Board Lot each (COMMON)	=	154,700
Number of Shareholders owning at least one Board Lot each (PREFERRED)	=	123

Annex "C-2"

Public Ownership Report as of March 31, 2013

PETRON CORPORATION
Computation of Public Ownership as of (03/31/13)

	% to total Outstanding Shares	Number of Shares	Common
Number of Issued Shares			9,475,104,497
Less: Number of Treasury Shares (if any)			-
Number of Preferred Shares (if any)			100,000,000
Number of Outstanding Common Shares			9,375,104,497
Less:			
Directors *			
Ramon S. Ang	0.0000%	1,000	
Direct			
Eduardo M. Cojuangco. Jr.	0.0000%	1,000	
Direct			
Estelito P. Mendoza	0.0000%	1,000	
Direct			
Bernardino R. Abes	0.0000%	1	
Direct			
Aurora T. Calderon	0.0000%	1,000	
Direct			
Roberto V. Ongpin	0.0000%	1	
Direct			
Eric O. Recto	0.0000%	1	
Direct			
Ron W. Haddock	0.0000%	1	
Direct			
Mirzan Mahathir	0.0000%	1,000	
Direct			
Reynaldo G. David	0.0000%	1,000	
Direct			
Romela M. Bengzon	0.0000%	1,000	
Direct			
Virgilio S. Jacinto	0.0000%	1,000	
Direct			
Lubin B. Nepomuceno	0.0001%	5,000	
Direct			

Artemio V. Panganiban Direct	0.0000%	1,000		
Nelly Favis-Villafuerte Direct	0.0000%	1,000	15,004	
Officers*				
Emmanuel E. Erana Direct	0.0000%	0		
Rowena O. Cortez Direct	0.0001%	8,580		
Archie B. Gupalor Direct	0.0000%	3,000		
Susan Y. Yu Direct	0.0000%	0		
Freddie P. Yumang Direct	0.0000%	0		
Albertito S. Sarte Direct	0.0000%	0		
Efren P. Gabrillo Direct	0.0001%	8,001		
Joel Angelo C. Cruz Direct	0.0000%	0	19,581	

Principal Stockholders *				
SEA Refinery Corporation Direct	50.10%	4,696,885,564		
Petron Corporation Employees' Retirement Fund (PCERP) Direct	14.79%	1,386,156,097		
San Miguel Corporation Direct	18.16%	1,702,870,560	7,785,912,221	
Affiliate *				
N/A	-	-		
Others				
Government*	-	-		
Banks*	-	-		
Employees*	-	-		
Lock-up Shares*	0.20%	18,504,822	18,504,822	7,804,451,628
Total Number of Shares Owned by the Public				**1,570,652,869**

PUBLIC OWNERSHIP PERCENTAGE

Total Number of Shares Owned by the Public

Total Issued and Outstanding Shares

1,570,652,869 shares / 9,375,104,497 shares = **16.75%**

Required Public Ownership % = **10%**

[/] Complied   [ ] Not Complied

(Please check (/) the appropriate box)

Number of Issued and Outstanding Shares	=	9,475,104,497
Number of Outstanding Shares	=	9,475,104,497
Number of Treasury Shares	=	-
Number of Listed Shares	=	9,475,104,497
Number of Foreign-Owned Shares	=	322,458,061
Foreign Ownership Level (%)	=	3.40%
Foreign Ownership Limit (%)	=	No Foreign Ownership Limit
Number of Stockholders	=	155,676
Number of Shareholders owning at least one Board Lot each (COMMON)	=	152,915
Number of Shareholders owning at least one Board Lot each (PREFERRED)	=	119